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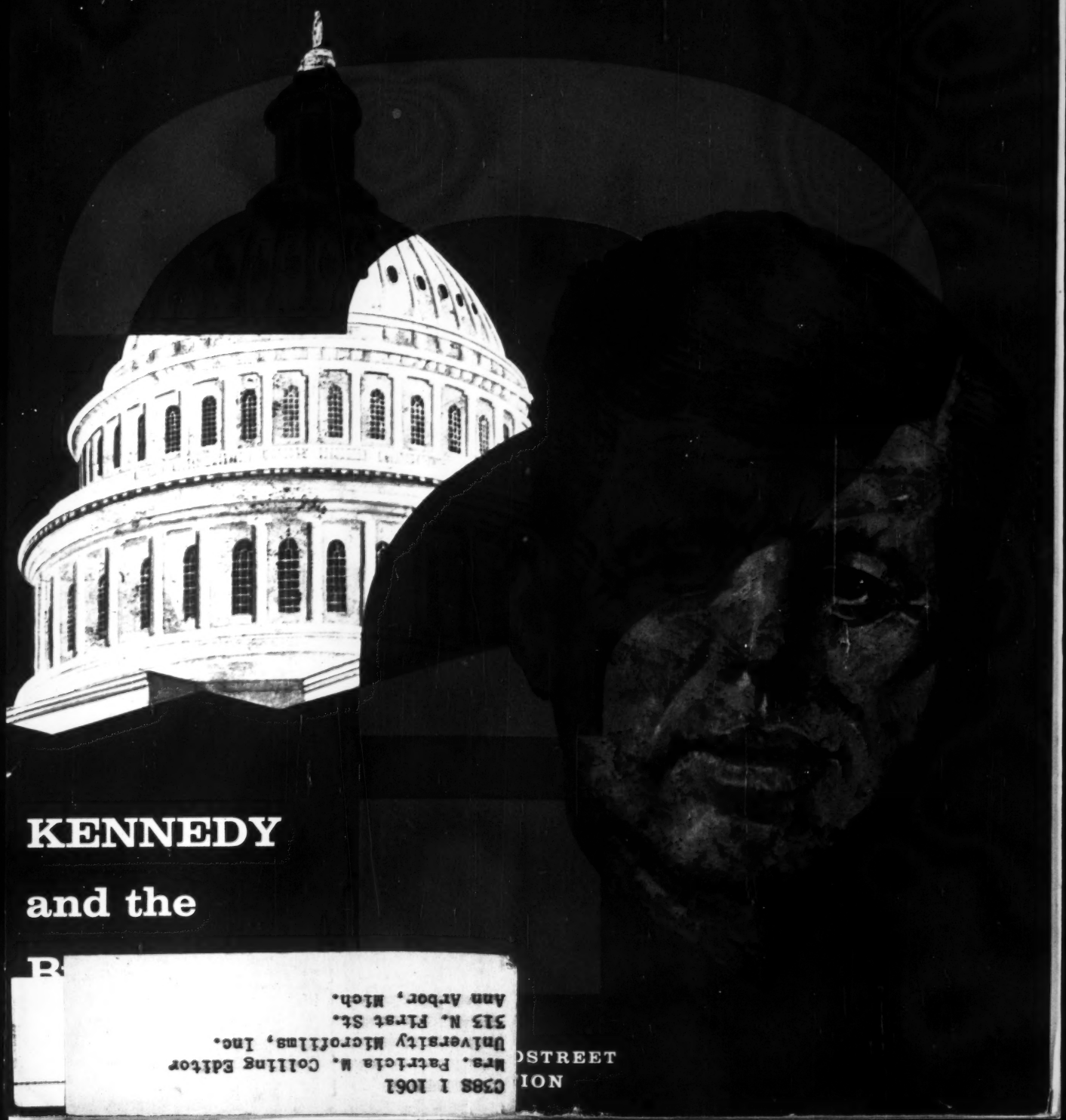
★ Europe's Year of Peril

★ Little Risk—And 8¾% Return

★ Room at the Top



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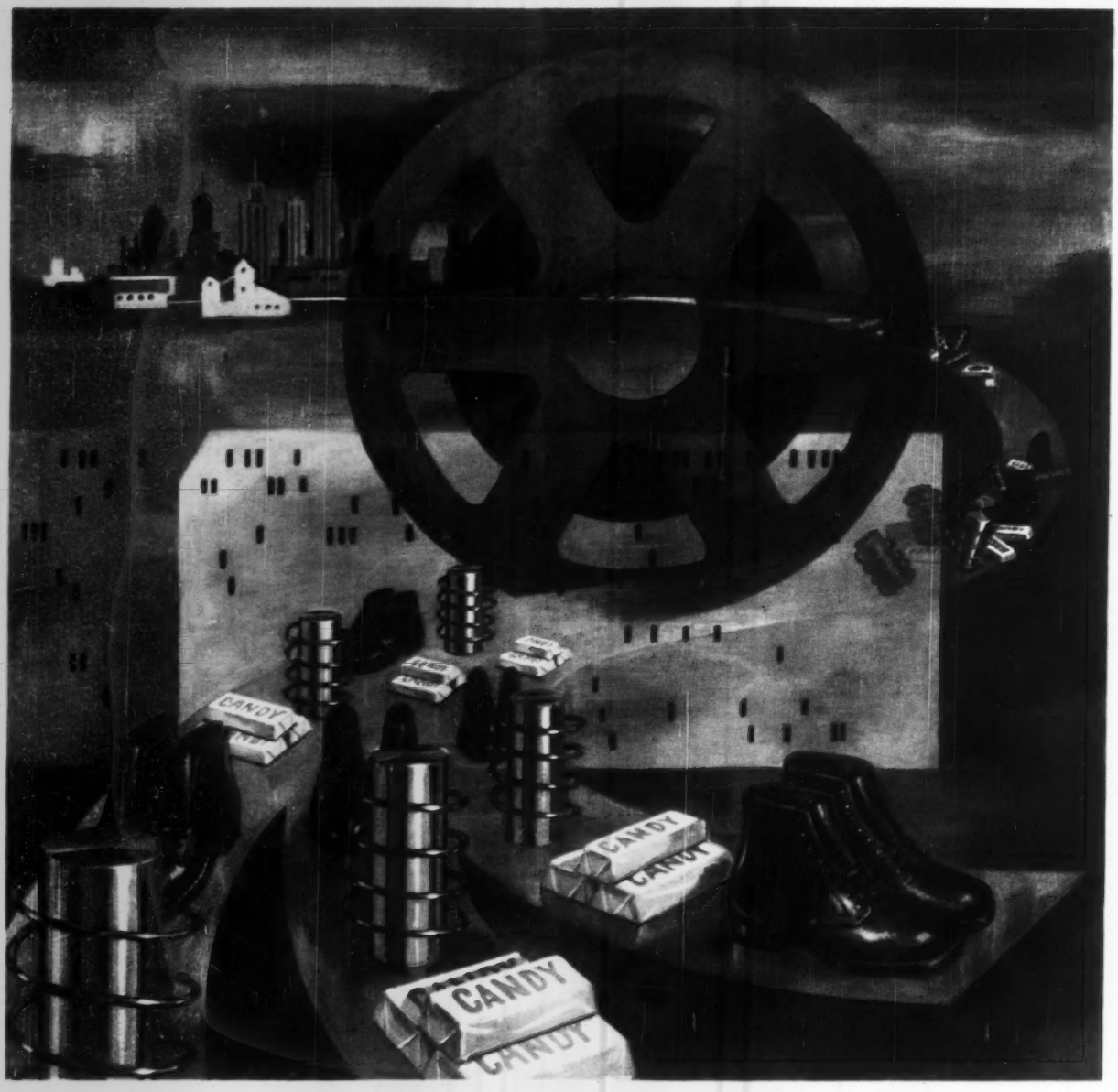

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DUN'S REVIEW AND MODERN INDUSTRY

VOLUME 78 NUMBER 2

August 1961

3 *Letters to the Editor*

5 *Washington Desk* JOSEPH R. SLEVIN

9 *The Trend of Business*

15 *Business Failures*

23 *Editorial: The Conservative Rebels*

24 *Kennedy and the Businessmen*

27 *Little Risk—and an 8% Return*

30 *Room at the Top* JACK J. FRIEDMAN

32 *Europe's Year of Peril* CLARENCE B. RANDALL

39 *The New World of Machine Tools* MELVIN MANDELL

47 *Personal Memo*

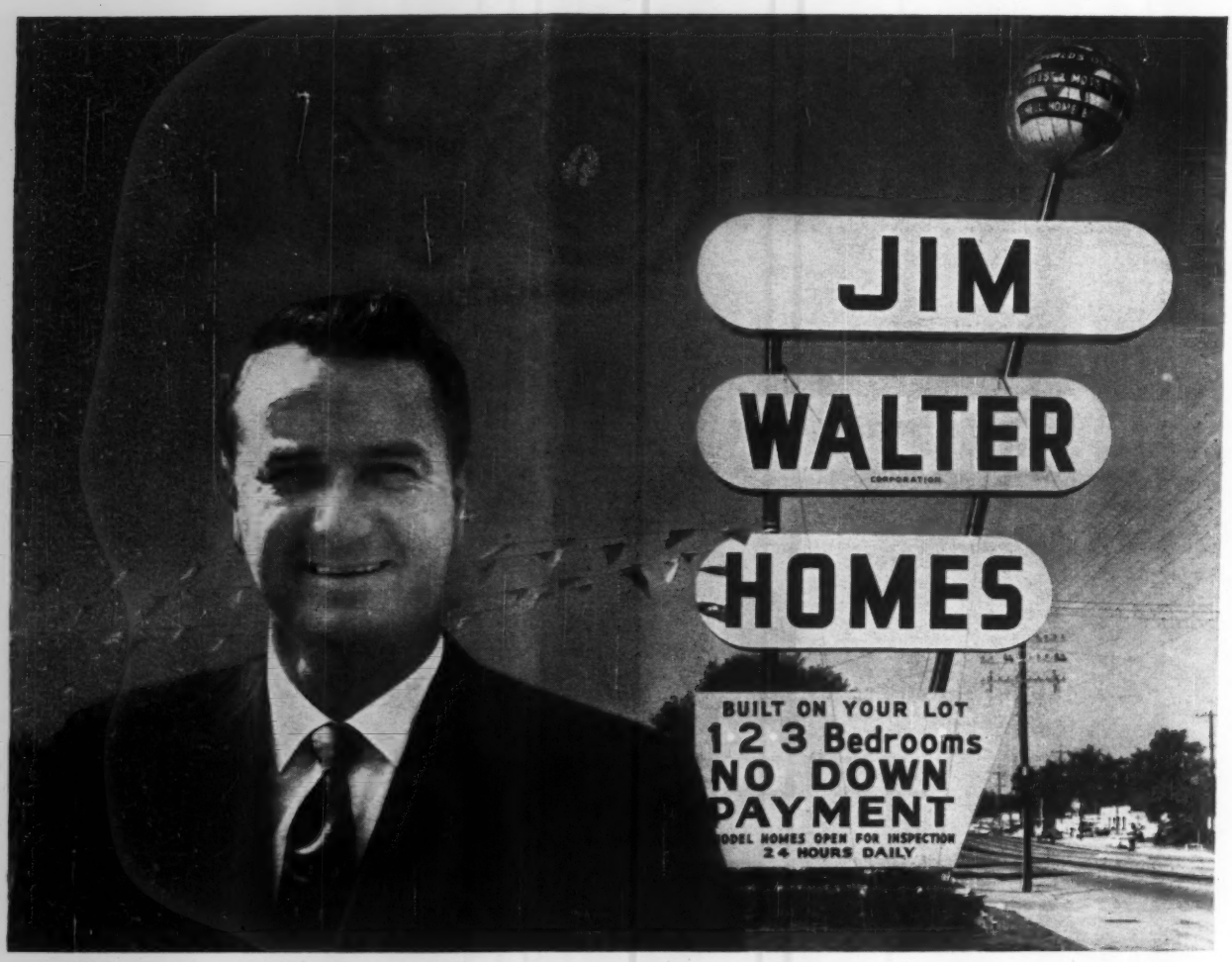
50 *Managing Your Manpower* LAWRENCE STESSIN

57 *International Markets* ALEXANDER O. STANLEY

63 *Inside Industry*

67 *Sales & Distribution*

72 *The Reviewing Stand*



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Letters to the Editor

A Matter of Fat

SIR: Hey! I don't like what I see in the July issue ("Is Your Memory Playing Tricks?" DUN'S REVIEW). In the chart, under "cut down on animal fats . . . to slow down hardening of the arteries," you show a cut of meat that is very suggestive of a baked ham.

I hasten to point out that pork fat contains a really effective "anti-hardening artery" factor—arachadonic acid—which is *the* essential fatty acid and the only fatty acid that the body must have.

JOHN E. THOMPSON
President-General Manager,
Reliable Packing Co.
Chicago, Ill.

The Annual Dilemma

SIR: We found your article on the annual report ("The Dilemma of the Annual Report," DUN'S REVIEW, July) intriguing. If you don't mind, we might steal a little of it.

DWIGHT ROCKWELL JR.
Mead Papers, Inc.
New York, N.Y.

Transportation Report

SIR: You have presented the transportation picture ("The $50-Billion Battle," DUN'S REVIEW, June) in a most interesting, readable and objective fashion.

One point I would like to mention, though, is the effect of the bite transportation takes of Gross National Product. We have imposed a great deal of unnecessary cost upon our common carriers and perpetuated it for years after we recognized the result of our actions.

It is a paradox of government-industry relationships—unique in transportation—that regulation has driven *price* to bargain levels while imposing substantial avoidable and wasteful *cost* upon the regulated carriers. This is an important factor in do-it-yourself and illegal for-hire transportation.

JOHN P. DOYLE
Maj. Gen., USAF (Ret.)
Transportation Consultants, Inc.
Washington, D.C.

SIR: As a user of leased trucks and common carriers, I resent the "grey market" interpretation of economics. From my point of view, there is a changing economic picture that a non-competitive, price-fixed industry refuses to acknowledge.

The basic common carrier rates are based upon the small-package business. The volume user gets a rate that is higher than the economic values justify. Therefore, new economic forces—either in proprietary trucks or leased trucks—fill the void. Laws to control economic activity that violate economic laws eventually lose their strength and value.

FRANK KADISH
President,
Standard Glass
Phoenix, Ariz.

SIR: I am referring this issue to my associates who will be equally interested in this comprehensive report.

WILLIAM H. KENDALL
President,
Louisville and Nashville RR Co.
Louisville, Ky.

SIR: . . . a very timely and useful summary of the important public question on which its attention is focused.

JOHN W. BARRIGER
President,
The Pittsburgh & Lake Erie RR Co.
Pittsburgh, Pa.

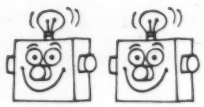
Price-Fixing Controversy

SIR: I would like to reply to the letter by Julius B. B. Stryker in the June issue ("Letters to the Editor," DUN'S REVIEW).

His attempt to minimize the crimes committed by a majority of the largest companies in the world engaged in the manufacture of electrical appliances is to be regretted. For him to suggest that merely meeting socially, or even for business discussions, might result in a charge of "conspiracy" is an attempt to justify to himself the propriety of doing just what was proven to be wrong, and illegal, by the Justice Department.

SAM FELDSTEIN
San Francisco, Calif.

HOW TO KEEP FILING CABINETS FROM TAKING OVER THE OFFICE



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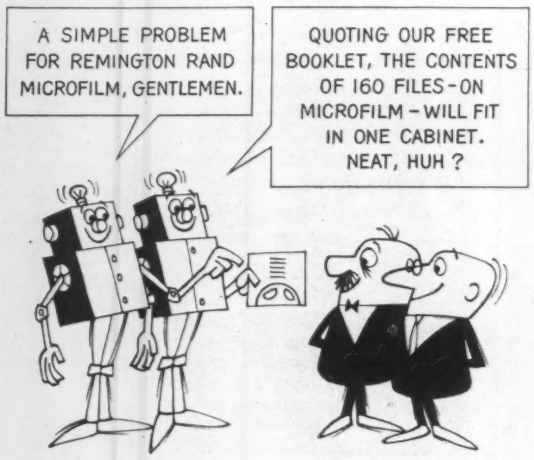
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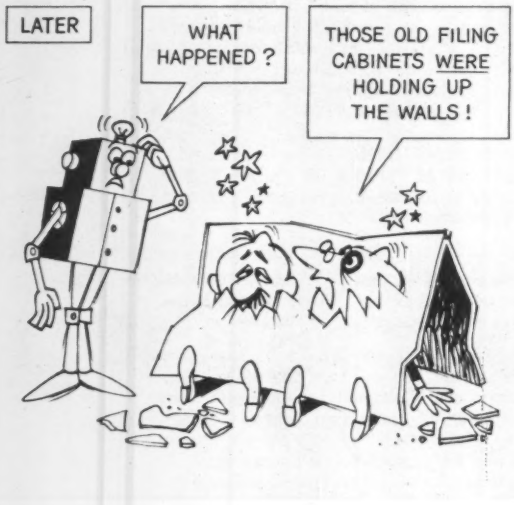

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DUN'S REVIEW AND MODERN INDUSTRY
August 1961

These are ominous days in Washington. There is great tension, deep foreboding in high places. Berlin is the cause. The island city occupies stage center--more than disarmament, more than a nuclear agreement. Almost all decisions are made with Berlin in mind. It is a time of testing--of our intentions against Soviet intentions, of our nerves against Soviet nerves, of our capacity for world leadership against the Soviet drive for power. The pressure is on. The hope and the belief is that there is a solution short of war. But no one can be certain. No one can read the mind of Nikita S. Khrushchev.

The Berlin crisis is having a continuing impact on national economic policy, on business developments. Most obvious are its consequences for Federal spending. The Government is paying out more for conventional armaments--for planes and guns. The Pentagon is scrutinizing the nation's military requirements--conventional, atomic and space. It is checking and rechecking manpower needs, surveying and resurveying mobilization objectives.

Foreign aid, too, is getting a strong helping hand from Berlin. The Administration's Congressional liaison aides are using the crisis to get more foreign aid money for President Kennedy than he could have hoped to obtain if there had been no Berlin. The international showdown is having an impact even on the Administration's social welfare programs.

The defense speed-up was one reason why Mr. Kennedy asked for relatively little outright economic stimulation money in the late spring second-look economic review. Opponents of Administration home-front programs are using the current and potential arms requirements to argue against bolstering domestic spending programs. They contend that it is more than the country can afford, that social welfare must yield priority to military strength. The contention gives many fence sitters an out that they had been looking for.

* * *

Easy money continues to be the watchword at the Federal Reserve Board, even though the recovery is showing more bounce than had been anticipated. The central bank is under strong Administration pressure to encourage the upturn by assuring an ample supply of loan funds to businessmen, local governments, home buyers, consumers and other borrowers. It is leery of creating an excessive amount of money, unduly bloating the credit supply and thus piling up fuel for a new round of inflation. But it sees no threat of imminent trouble.

Conditions could change quickly. But this recovery seems different from the previous postwar business advances. Inflationary excitement is lacking. Businessmen and consumers are not buying frantically to make inventory profits or to avoid higher future prices. There is no speculative surge in commodities. Raw materials are abundantly available. Unemployment is high. Industry has idle capacity. Imports from the reconstructed

European and Japanese industries are bringing downward pressure on many prices.

Not that inflation is licked. But the Government experts see no immediate prospect of a price run-up. The Administration and Federal Reserve policy moves reflect this appraisal. The fact that the money supply did not post its customary recession expansion suggests to the Federal Reserve that it can continue to pump additional funds into the banking system for some months to come.

Some policymakers think that money can remain easy--and interest rates remain relatively steady--until year-end. Others think the turn will come sooner, some time during the fall. All agree that Berlin could change everything, that heavier Government spending and a change in business and consumer psychology could touch off the inflationary excitement that has been lacking, quickly lead to tighter money and higher borrowing charges.

* * *

Personal income tax rates could be changed by the President without specific Congressional approval, if one recommendation of the Commission on Money and Credit should be enacted into law. This proposal, which has particularly caught Mr. Kennedy's fancy, would give the Chief Executive flexible though limited power to change individual income tax rates up and down. Academic economists long have liked the idea. Walter W. Heller, chairman of the Council of Economic Advisers, was one of the most articulate supporters of the plan before Mr. Kennedy tapped him for the White House post. The chief argument for giving the President tax adjustment power is that he could quickly move to counter an incipient boom by raising rates, or try to stimulate a flagging business advance by trimming rates.

Much as Mr. Kennedy likes the flexible tax approach, he will take careful Congressional soundings before he commits himself publicly. If the legislators remain as jealous of their tax powers as they traditionally have been, the chances are that Mr. Kennedy will not try to win approval of the CMC suggestion, since he feels other issues are all more important.

* * *

Small business is not being neglected in the Administration's burgeoning export drive. It is part of the campaign to earn more abroad by selling more American goods to foreign buyers. The Small Business Administration is pushing the new drive. Little firms are deeply reluctant to explore overseas markets. They figure it takes a kind of selling and shipping organization--plus financial and red-tape know-how--that they just do not have. The SBA says it is not so, plans to hold clinics around the country to show small firms how they can sell to foreign customers.

* * *

An impending shortage of loan funds is causing the 71-nation International Monetary Fund to push quietly ahead with a scheme to gain access to an additional $6 billion that it could supply to its member countries. France has been dragging its feet, for the De Gaulle Government wants to set up a new European Fund instead. But the U.S. is throwing its full support behind the world-wide IMF approach. One attractive feature of the IMF plan: the wealthier countries would promise to make the $6 billion available on demand but would not put up any money until it is needed. The IMF has to have more money, because the volume of Free World trade is rising and so is the potential size of a Free World financial crisis. The IMF's huge existing currency and gold pool no longer is adequate.

--Joseph R. Slevin

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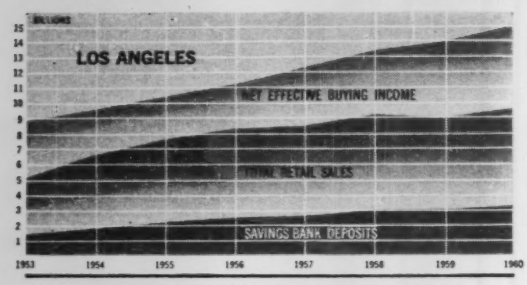

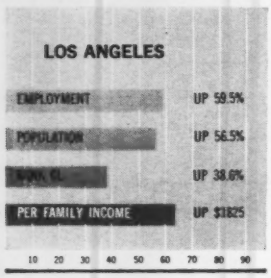

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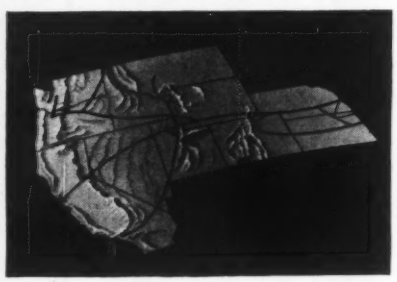

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The Trend of BUSINESS

SALES: *Slight gains at retail likely in months ahead*
PRODUCTION: *Physical output will move into new high ground before long*
CONSTRUCTION: *A new record probable this year for over-all outlays*
FAILURES: *June tolls fall back, but liabilities climb*

ALTHOUGH some summer sluggishness is currently slowing the rate of recovery in many industries, over-all business activity continues to show strength, and by summer's end the upward movement will most likely pick up more speed. Gains, however, will not be spectacular, and it is not probable that they will match those of this past spring when the recovery was in its early stages.

Contributing to the upturn will be gains in personal income, retail trade and manufacturers' new orders. Later in the year some strength will be drawn from increases in profits, new plant and equipment expenditures and housing starts, but no significant gains in these areas are likely until the early months of 1962. Although some improvement is likely, relatively high levels of unemployment can be expected to persist through the end of the year.

During this month or the next industrial output will match its prerecession record and then will edge up to new high ground.

Increased production of steel, machinery, autos (barring any labor strikes) and other industrial and consumer durables will play a big part in nudging the Federal Reserve Board's seasonally adjusted Index of Industrial Production up to the January 1960 record of 111 (1957 = 100) this month or in September. This increase, as well as subsequent ones through year-end, will also be supported by output gains in electric power, coal, textiles, apparel and other non-durables, as well as some modest advances in appliances and furniture. The end of the year will likely find the index at a new peak of about 114, or even 115.

So far, the summer slump in steel production has been a little less extensive than was expected a month or so ago. New orders currently indicate that a good pick-up is likely to develop in August and gain momentum perceptibly in the course of the autumn months.

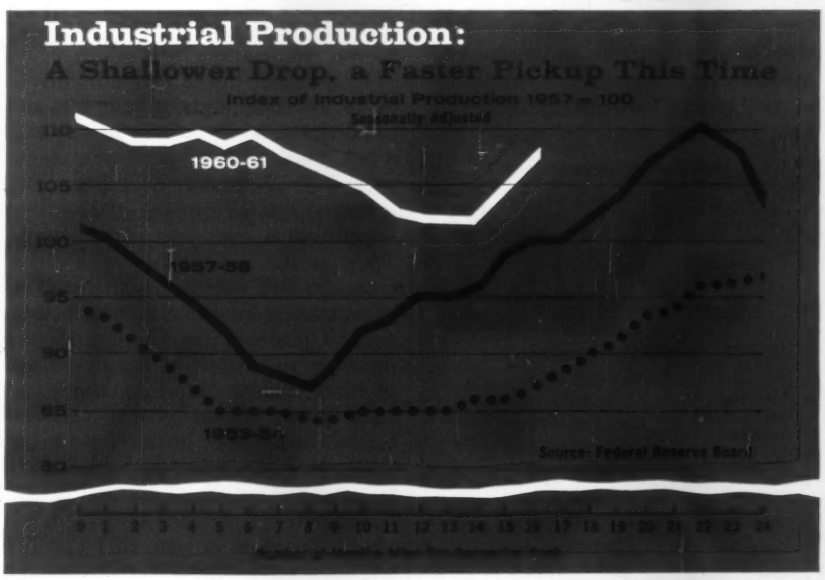
Some steel customers, mindful of the price reductions on certain steel products that were first evident in early summer, may postpone their ordering a while, hoping for further price cuts by producers. Most mills, however, hope to hold the price line, or even advance it a bit if new business in the coming months is favorable. At present, it appears that steel production for 1961 as a whole will be about the same as 1960.

As foreign steel output catches up with demand, the steel export market in the months ahead will show further weakening. This will prompt domestic steel producers to compete more aggressively in foreign markets, and many will even more seriously consider investing in production abroad.

Unless there is an extended labor walkout, auto output in the months ahead will show healthy gains, once Detroit's model changeover process is completed.

Encouraged by somewhat lively sales in recent months and relatively low inventories, auto plants will boost output up to the 1961 high levels of late spring and early summer beginning in September, when all of the producers will have completed model changeovers.

Although the new models, supported by a general upswing in over-all business activity, will likely help domestic auto sales approach, or even exceed, comparable 1960 levels



IN THE MOST recent recession, physical output showed less of a decline than in the two prior postwar recessions, and recovery has been at a faster rate.

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in the remaining months of this year, domestic sales for 1961 as a whole will probably show a decline of 8% to 10% from 1960.

Domestic automakers will likely get more competition from foreign models the rest of this year, but imports will remain well below year-earlier levels.

Prompting much of the continued rise in total industrial production the rest of this year will be continued, though less extensive, gains in manufacturers' new orders for durable goods. Unfilled orders will also expand as the excess of new orders over sales grows a bit, but this margin will not widen as quickly as in some past recovery periods. Excess capacity in many industries will permit manufacturers to fill orders more quickly and help sales keep closer to new orders. During the rest of the year new orders will gain more support from some build-up of inventories in the appliance, furniture, machinery, construction equipment and possibly even the railroad industries.

The pace of over-all inventory accumulation through the end of the year will pick up some steam.

Although they will probably be more cautious than in other postwar recoveries, businessmen can be expected to add to their inventories at an increasingly faster rate in the months ahead, with the greatest activity in durables. This will be true at all three levels: manufacturing, wholesaling and retailing. However, the fact that most businessmen do not fear any price increases in the near future will restrain these gains.

Responsible for the rise in inventories, manufacturers' new orders and industrial production will be gains in retail trade. These increases, however, will be moderate at first, with monthly totals showing only slight improvement over year earlier levels. Then as the year draws to a close, increases will be more substantial as consumers gain more confidence in general business conditions and step up their purchases of big-ticket appliances, autos, furniture and other hard goods. Good year-to-year increases in apparel, linens, food products and some other soft goods will be evident.

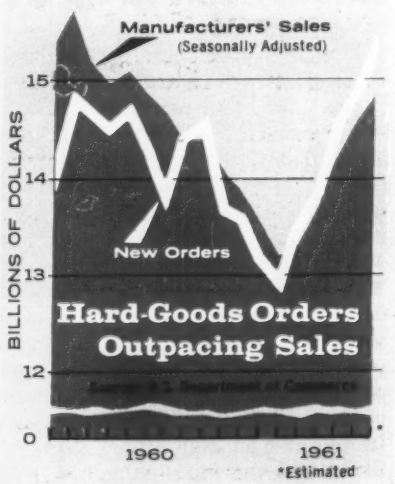
Support for the idea that gains are ahead for sales of new cars and appliances came from the May-June survey of "Consumer Attitudes and Inclinations to Buy," conducted by the Survey Research Center of the University of Michigan. The proportion of people expecting to purchase new cars and appliances was up a bit over the last two similar surveys conducted six months and a year earlier, respectively.

Consumer installment debt outstanding will edge up in the coming months, as interest in big-ticket appliances and new cars improves.

After some seesawing in recent months, consumer installment credit will move up the rest of this year. Increases in debt outstanding, however, will be restrained by continued efforts by consumers to pay off old debts and by more caution on the part of lenders and stores in extending new credit, especially in areas where collections have been slow.

Besides gaining more confidence in the economy, consumers will have more money to spend. As industrial output picks up, more peak levels of personal income are likely. Saving ratios will slip, though, as people will be a little more interested in spending and less keen on saving than they were earlier this year.

The high income levels will primarily reflect increased employment, where more record levels are likely. However, the rate of increase may not match that of production. The reason is that some industries will lengthen the workweek of their present workforce and instigate technological innovations requiring less manual help to accommodate planned increases in output. This is what the steel mills have been doing.



UNFILLED ORDERS of durables have been well ahead of sales recently.

One of America's largest suppliers of money for business

Companies from coast to coast find it easy to do business with subsidiaries of Commercial Credit Company—and have been using their services increasingly to solve money problems for nearly 50 years. Currently, Commercial Credit subsidiaries supplement working capital for thousands of firms through Business Loans, Factoring, Equipment Leasing and Financing, Fleet Leasing, Rediscounting.

In these areas—Financing, Insuring, Manufacturing—only Commercial Credit Company subsidiaries provide such a wide variety of services and products that contribute to the growth of business and the well-being of families throughout the United States and Canada. Resources over two billion dollars.

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Personal Loans
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Wholesale Financing

INSURING

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Commercial Credit Insurance
Credit Life Insurance
Health and Accident Insurance

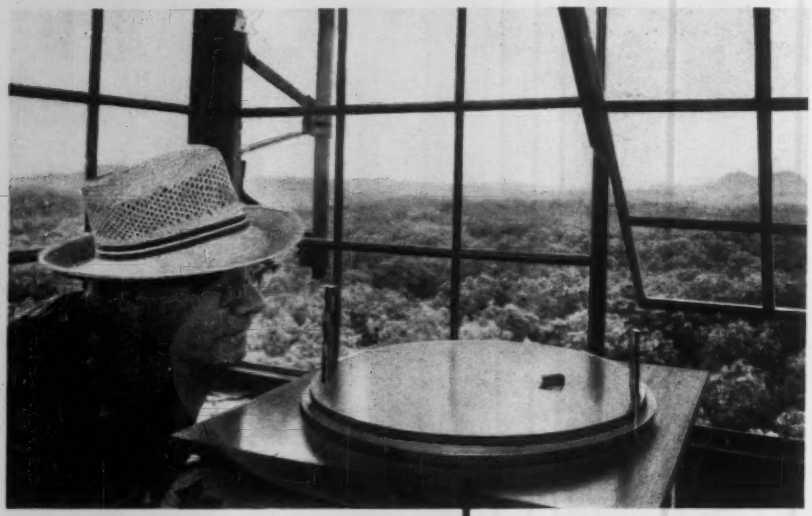
MANUFACTURING

Heavy Machinery and Castings
Machine Tools
Malleable, Gray Iron and Brass Pipe Fittings
Metal Products
Metal Specialties
Pork Products
Printing Machinery
Pyrotechnics
Roller and Ball Bearing Equipment
Toy Specialties
Valves

COMMERCIAL CREDIT

SERVICES PROVIDED BY SUBSIDIARIES OF COMMERCIAL CREDIT COMPANY, BALTIMORE

9,143,000 acres under fire protection in KENTUCKY!



NO other State offers industry such tremendous natural advantages as Kentucky. But that's only *half* of the Kentucky story. In January, 1960, Governor Combs and Lt. Governor Wyatt announced a multi-faceted program to help develop Kentucky's enormous resources. *Today, every one of these projected activities has actually been launched.*

Forestry, for instance. This year, Kentucky will have more than nine million acres of forest land under fire protection —80% of its total forests! Before the end of the year twenty-two steel fire-detection towers will be added to the twenty-eight already constructed in 1961, bringing the total to 166 . . . twenty-three new graduate foresters have increased to 56 the number of professionals now working with Kentucky's private timberland owners . . . a second forest tree nursery, established in 1960, will bring the State's 1962 planting stock inventory to thirty million seedlings, with full capacity of forty million . . . 170 fire-prevention meetings have been held at the "grass-roots" level, reaching more than 10,000 people. A new Division of Wood Utilization has been established to serve manufacturers of wood products.

These are just a few of the big things now happening in Kentucky! We would like to give you complete details on the *unusual competitive advantages Kentucky can offer your company*. Write: Lt. Gov. Wilson W. Wyatt, or E. B. Kennedy, Commissioner, Dept. of Economic Development, 325 State Capitol Bldg., Frankfort, Ky.

And Kentucky offers much more than forestry advantages...

LOCATION–68.4% of Nation's population within 500 mi., 38.1% within 300 mi., 21% within 200 mi.

FINANCING PLANS – more industrial financing plans (five) than any other State in the Nation.

TRANSPORTATION FACILITIES – served by 4,000 mi. of track, 20,000 mi. of State-maintained highways, more miles of navigable rivers than any other State, seven major airlines.

POWER CAPACITY – sufficient public and private reserve capacity readily available to supply the needs of any new or expanding industry.

WATER RESOURCES – Kentucky has adequate ground and surface water to fulfill *all* present and future needs.

LABOR FORCE – survey of Kentucky's 1,000 largest manufacturers shows 94% consider their labor productivity from average to very high.

COAL RESERVES – third-largest bituminous coal-producing State with two large, widely separated fields.

NATURAL GAS – more than 90 of Kentucky's 120 counties have natural gas.

RAW MATERIALS – *Natural:* coal, natural gas, oil, limestone, silica sand, fluorspar, ball and fire clay, timber. *Manufactured:* chemicals, metals, plastics, coke, synthetic rubber, to name only a few.

RESEARCH FACILITIES – New Spindletop research facility is a three-way partnership: the State, University of Kentucky and private industry.

COMMONWEALTH OF
KENTUCKY
WHERE BIG THINGS ARE HAPPENING

Although the number of unemployed as a percentage of the labor force will probably move gradually lower, it will remain relatively high through the end of the year, reflecting in part continued increases in the labor force.

Increased sales will mean that profits will move up for the rest of this year, but for 1961 as a whole they probably will not come up to 1960.

A generally brighter sales picture and cost-cutting measures by many businessmen will mean wider profit margins the rest of this year, but no substantial gains are likely until 1962, when business activity picks up some more speed.

As profit levels do improve and as industrial activity uses up much of the excess capacity that still exists in many lines, outlays for new plant and equipment will also show more significant gains. The third and fourth quarters of this year will likely show moderate increases in such spending, but for the year as a whole a dip of about 3% from last year is likely. The first half of 1962 will probably see more significant increases in plant and equipment expenditures. Outlays for modernization and repairs will probably claim a smaller share of the over-all total than they have this year.

This moderate rise in new plant outlays during the second half of this year will help boost spending on industrial construction. This, along with gains in public and commercial outlays, will help push up total construction totals. Residential construction will also provide some support, but these gains will be somewhat less than was expected earlier this year. Although new housing starts will not show much of a rise this year from 1960, over-all construction will be moderately higher, setting a new record.

Some autumn rise in the Consumer Price Index is in prospect. Seasonal influences apart, however, really marked increases in living costs are unlikely until unemployment declines to within a point or so of the 4% level, perhaps next spring.

This report was prepared in the Business Economics Department, DUN & BRADSTREET, INC., by John W. Riday.

What happened to the 121 patients when fire roared through the LaCrosse Lutheran Hospital in LaCrosse, Wisconsin? Within 15 minutes every one of them was evacuated. Hospital officials credit a prearranged plan, worked out with The Travelers safety engineers and the city Fire Department. Doctors, nurses, orderlies put it into action calmly, swiftly. Result: no panic and a happy ending. The Travelers has helped policyholders prevent industrial accidents since 1888. It's part of the service you get with Travelers Workmen's Comp and Public Liability Insurance. Ask your Travelers man.

THE TRAVELERS Insurance Companies HARTFORD 15, CONNECTICUT

Is competition chipping away at your share of market?

If improved customer service will give you more of a competitive advantage, now is the time to use American Airlines AIRfreight.

Nothing satisfies a customer like quick, dependable delivery of his order. AIRfreight's speed and flexibility let you do just that and meet regional demand fluctuations as they arise. With more than 1,200 flights daily, American serves 3,042 markets through 50 major cities. No need now for large safety stocks, unwieldy inventory, extensive overhead.

One national shipper, Relief Printing Corporation of Boston, began using American AIRfreight nine years ago to market business cards nationally. They cut west coast and midwest delivery time, met local competition, boosted sales 65%. Maybe American can do the same—or more—for your company.

Consider AIRfreight—every profit-building aspect. And remember, more shippers move more freight on American than on any other airline in America. *Ship with the professionals*—call American AIRfreight.

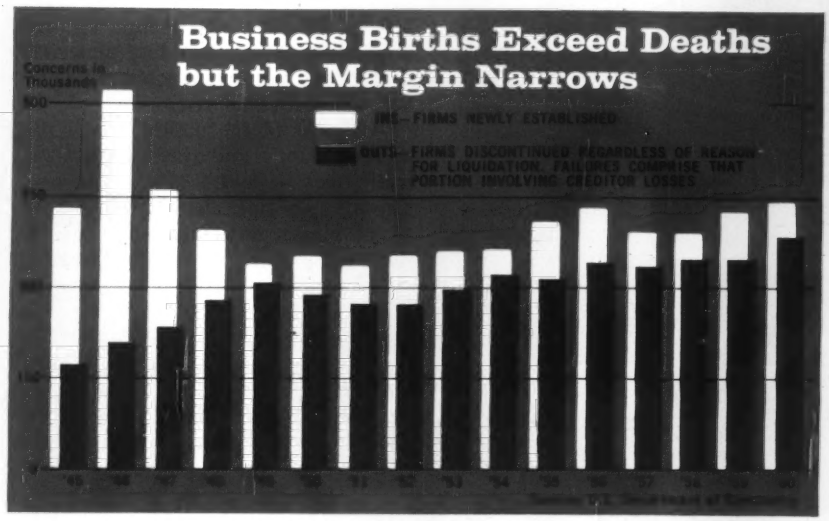
AMERICAN AIRLINES

America's Leading Cargo Airline

Business Failures

Casualties fall back to January level

Manufacturing toll at nine-month low


Business Births Exceed Deaths but the Margin Narrows
Concerns in thousands
500
150
100
INS—FIRMS NEWLY ESTABLISHED
OUTS—FIRMS DISCONTINUED REGARDLESS OF REASON FOR LIQUIDATION. FAILURES COMPRISE THAT PORTION INVOLVING CREDITOR LOSSES

BUSINESS FAILURES in June dropped by 9%, about twice the usual seasonal decline. Falling back to 1,403, approximately last January's level, they still were higher than in any month of 1960 or 1959. And they topped by 5% the previous postwar high for June set last year. Businesses failed at a seasonally adjusted rate of 60.7 per 10,000 enterprises listed in the DUN & BRADSTREET *Reference Book*, as against 57.2 last June.

Dollar liabilities, after dipping for two months, turned up 4%, to $83.8 million. Meanwhile, failures involving losses of more than $100,000 surged to 197, the second-highest postwar peak (topped only by last March's total). Over-all liabilities, however, fell far short of the spectacular $126.5 million registered last June, when eighteen million-dollar failures boosted total volume. This June there were only six casualties of that size.

In all types of operation except service businesses, failures declined from May to June. Manufacturing casualties were the lowest in nine months, with the downturn concentrated in the metals and machinery industries and in printing and publishing. Retail failures in June were the lowest since February, with noticeable declines in apparel, general merchandise and building materials. However, increases persisted in the automotive and food trades. In the first half of 1961 there was a particularly steep upsurge in food store liabilities to $43.8 million, more than three times as large a total as in the first half of 1960.

In the construction industry, failures dipped to the lowest level since

continued on page 16

THE FAILURE RECORD

	June 1961	May 1961	June 1960	% Chg.†
DUN'S FAILURE INDEX*				
Unadjusted	61.3	67.5	57.2	+ 7
Adjusted, seasonally	60.7	64.3	57.2	+ 6
NUMBER OF FAILURES	1403	1545	1334	+ 5
NUMBER BY SIZE OF DEBT				
Under $5,000	171	158	143	+20
$5,000—$25,000	583	677	591	− 1
$25,000—$100,000	452	535	423	+ 7
Over $100,000	197	175	177	+11
NUMBER BY INDUSTRY GROUPS				
Manufacturing	218	269	228	− 4
Wholesale trade	144	167	110	+31
Retail trade	696	731	680	+ 2
Construction	222	255	213	+ 4
Commercial service	123	123	103	+19
LIABILITIES (*in thousands*)				
CURRENT	$83,828	$80,471	$126,450	−34
TOTAL	85,454	81,191	129,992	−34

*Apparent annual failures per 10,000 enterprises listed in the DUN & BRADSTREET *Reference Book*.

†Per cent change, June 1961 from June 1960.

In this record, a "failure" occurs when a concern is involved in a court proceeding or in a voluntary action likely to end in a loss to creditors. "Current liabilities" here include obligations held by banks, officers, affiliated and supply companies, or the governments; they do not include long-term publicly held obligations.

This lassie never got home

before PENDAFLEX®

I was working like a dog until all hours. The old-fashioned filing system in our office had me bone tired, panting for a break.

Then we switched to Pendaflex hanging, sliding file folders. What a difference! Pendaflex folders slide on smooth metal rails . . . give finger-tip control of all files. No more pulling and hauling to open a file space. And exclusive Pendaflex "keyboard" selection means fast—and accurate—filing! Speed, ease and efficiency . . . Oxford Pendaflex has them all.

This lassie comes home on time now; no unfinished filing to hound me. Pendaflex is a file clerk's best friend. Why don't *you* get all the facts—plus a FREE File Analysis Sheet and complete Oxford Catalog. The coupon is below.

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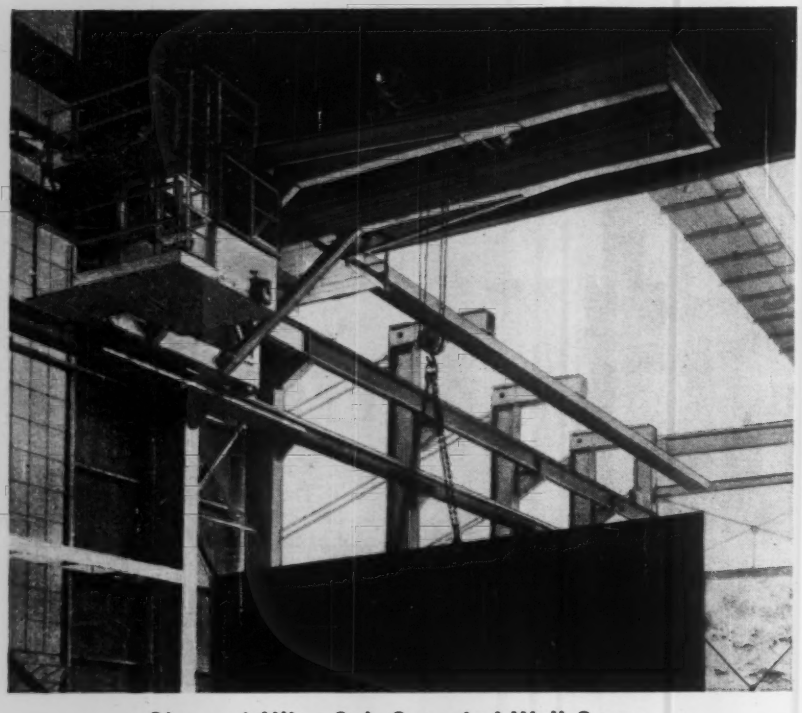
SHEPARD NILES JOB-MATED CRANES:

DIFFERENT—because each job is different



Shepard Niles Cab Operated Wall Crane

This Shepard Niles Job-Mated QUALITY Crane was specifically designed for the actual job it is doing. Each component – motors, controls, frame, gearing, trolleys, brakes – was designed and built by Shepard Niles to give the best overall crane performance under unique operating and load conditions.

Your load-moving problem will receive this same careful consideration at Shepard Niles. Even in so-called "standard" applications, our insistence on selecting the right components to meet exact on-the-job conditions, results in a custom-built crane. Care like this in our plant means lower operating costs and increased efficiency in yours.

For the full story on how Shepard Niles Job-Mated Cranes can cut costs in your plant, arrange to have a Shepard Niles representative call at your convenience. Or send for our descriptive bulletin.

Member of Electric Overhead Crane Institute

America's Most Complete Line of Cranes and Hoists

SHEPARD NILES
CRANE AND HOIST CORPORATION

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January. Building subcontractors had an appreciably lighter toll, particularly in the plumbing, heating and electrical lines.

Fewer manufacturers succumbed than in June a year ago, but casualties stayed above 1960 levels in other functions. Construction and retailing showed mild increases ranging from 2% to 4%, but wholesaling failures jumped by 31%. Building materials dealers and petroleum jobbers largely accounted for that rise.

All parts of the nation except the South Atlantic and East South Central states reported lower business mortality in June than in May. Five of the nine regions had fewer casualties than in June last year. However, sizable increases from 20% to over 40% prevailed in four regions. All states in the East North Central region suffered higher failures, with a marked climb in Ohio. South Atlantic, East South Central and West North Central tolls also surged above 1960 levels.

FAILURES BY DIVISION OF INDUSTRY

	Cumulative total (Six Months)		Liabilities in million $ (Six Months)	
	1961	1960	1961	1960
MINING, MANUFACTURING..	1,453	1,302	144.6	148.6
Mining—coal, oil, misc..	49	51	7.1	10.3
Food and kindred products	85	86	12.5	23.6
Textile products, apparel.	267	219	26.2	15.2
Lumber, lumber products.	253	262	18.9	17.7
Paper, printing, publishing	125	91	7.9	4.0
Chemicals, allied products	47	30	3.7	1.9
Leather, leather products.	35	42	2.9	8.5
Stone, clay, glass products.	33	24	2.1	1.6
Iron, steel, products.....	104	86	11.4	11.7
Machinery.....	136	134	12.8	22.0
Transportation equipment	61	55	16.2	7.9
Miscellaneous.....	258	222	22.8	24.3
WHOLESALE TRADE.....	886	737	68.7	59.2
Food and farm products..	166	173	11.9	20.3
Apparel.....	32	24	2.2	1.9
Drygoods.....	17	19	1.5	.8
Lumber, bldg. mats., hdwre	115	97	12.8	9.0
Chemicals and drugs....	29	24	1.6	.9
Motor vehicles, equipment	64	57	2.7	2.7
Miscellaneous.....	463	343	36.1	23.6
RETAIL TRADE.....	4,295	3,721	195.0	111.4
Food and liquor.....	578	528	43.9	13.2
General merchandise....	161	148	10.4	9.5
Apparel and accessories..	565	541	26.7	12.7
Furniture, furnishings...	562	532	28.4	18.3
Lumber, bldg. mats., hdwre	276	239	10.5	9.4
Automotive group.....	798	593	29.3	20.9
Eating, drinking places...	800	681	27.2	16.9
Drug stores.....	99	74	2.8	1.5
Miscellaneous.....	456	385	15.7	8.9
CONSTRUCTION.....	1,469	1,276	91.2	85.3
General bldg. contractors.	560	490	44.3	43.6
Building subcontractors..	819	698	40.7	35.3
Other contractors.....	90	88	6.3	6.5
COMMERCIAL SERVICE.....	749	671	47.1	49.2
TOTAL UNITED STATES.....	8,852	7.707	546.6	453.8

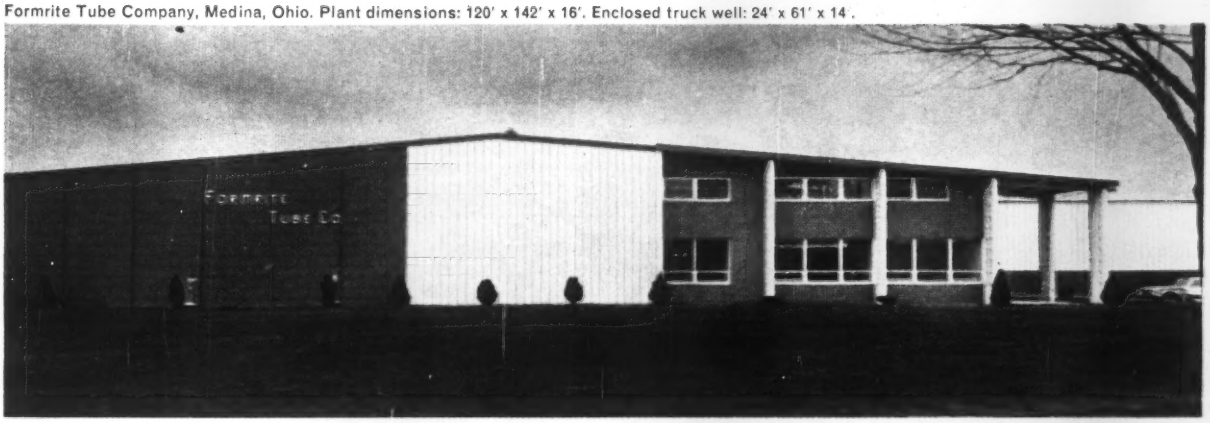
Liabilities are rounded to the nearest million; they do not necessarily add up to totals.

This report was prepared in the Business Economics Department by Rowena Wyant.

For strength, versatility, beauty, economy

Easy come, easy go up

Formrite Tube Company, Medina, Ohio. Plant dimensions: 120' x 142' x 16'. Enclosed truck well: 24' x 61' x 14'.



This new steel building is leased by the Formrite Tube Company from the Medina Corporation, in Medina, Ohio. The steel components arrived at the site, fabricated, painted and ready to put up...quick and easy. In addition to strength and permanence, this new plant has good looks. Its attractive design combines factory-painted galvanized steel panels with brick and concrete.

Because the parts are pre-engineered, a steel building saves construction time and costs. And when a steel building's up, it stays up. Maintenance is low—a steel building practically takes care of itself. It can be easily expanded. And because steel is non-combustible, insurance rates are low. No other type of building can match its utility and economy.

Next time you need a new building—make it steel. For information about the many styles, sizes and colors, send the coupon.

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Please send me information about factory-built steel buildings for the following uses: _____

Name _____

Company _____

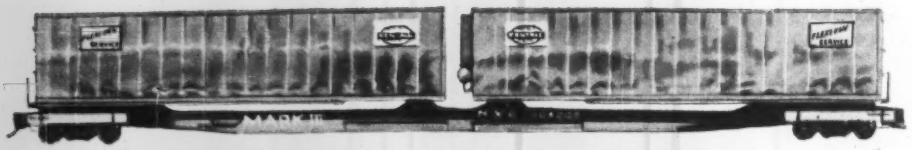
Address _____

City _____ Zone ____ State _____

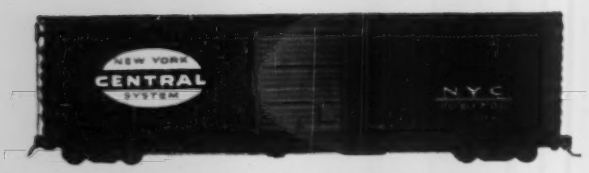
U.S. Steel does not make factory-built steel buildings, but supplies galvanized steel sheets, structural members and bars to steel building manufacturers. Your request for information will be forwarded to them.

USS TRADEMARK

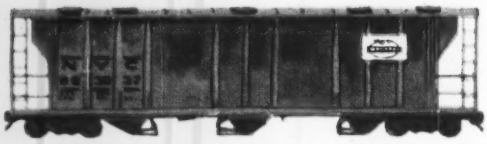
United States Steel



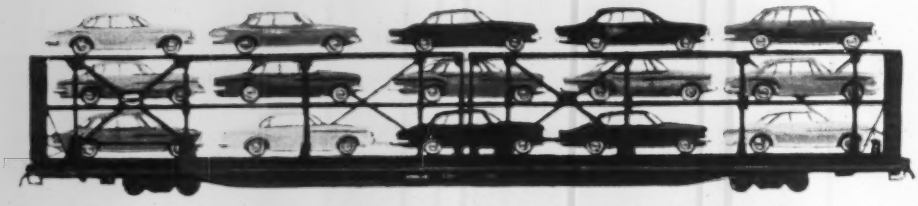
New star of the Central's fleet. Flexi-Van cars carry containers that carry everything—door-to-door—by rail, road or sea.



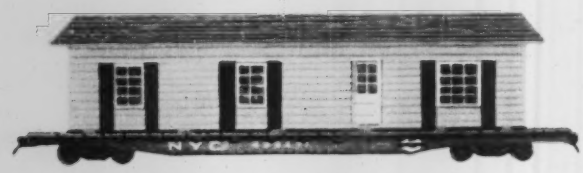
This versatile workhorse may be fitted with racks, air pillows or movable bulkheads for a wide variety of products.



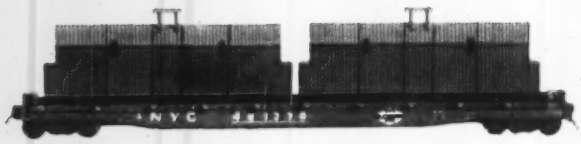
Some covered hopper cars tote food—such as flour, sugar or corn grits. Others carry cargoes such as cement or bauxite.



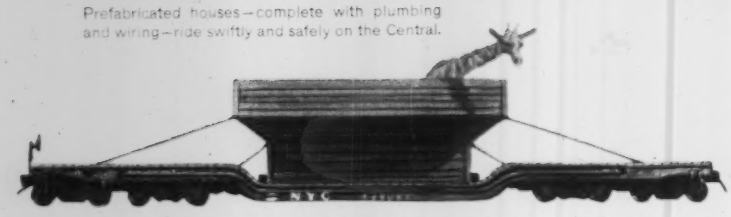
Fast, low cost transportation for automobiles. New models drive right on—and off—these special rack cars.



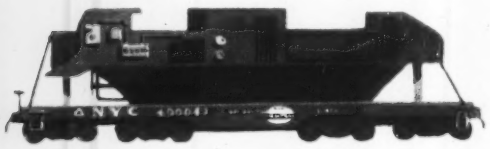
Prefabricated houses—complete with plumbing and wiring—ride swiftly and safely on the Central.



Some cars are fitted with skids and hoods to protect coiled sheet steel enroute to auto body makers.



Depressed center cars carry high loads under low bridges. Used for giant transformers and other giraffe-type cargoes.



Meet the Central's heavyweight champion. This rugged specimen can carry a staggering 250 tons!

From teacups to 250-ton transformers... there's a Central car to carry anything you ship

In the last five years the Central's fleet of "special" cars has expanded more than 159%!

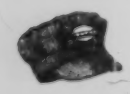
With cars custom made to fit their freight, Central shippers rack up big savings on crating, packing and dunnage as well as loading and unloading time. And so can you!

Shipments move faster on the Central, too. *In the last four years, Central freight train speeds have doubled!* And electronic classification yards have cut car sorting time from more than 24 hours to less than four.

If you don't specify shipment via the New York Central, you may be missing out on important savings. Why not call your local New York Central freight representative for further details?

NEW YORK CENTRAL SYSTEM

ROAD TO THE FUTURE



A Sporting Proposition — We'll bet you a railroader's hat that we can solve any special shipping problem you have. Call, wire or write W. M. Hoffman, V.P. — Freight Sales, New York Central, Dept. E, 466 Lexington Ave., N. Y. 17, MU 9-8000.

Plywood branches out

. . . and commercial banks help extend its usefulness

In homes and buildings. On walls, floors and boat hulls. Even in tiny tree houses plywood proves its strength, displays its beauty.

And America's commercial banks help make it one of the most useful materials of modern times.

Loans from banks help fell and transport trees. They provide cash for machinery to peel logs down to supple veneers, and cross-bond them into rugged plywood panels. And a good many times it's a bank that helps put plywood, plain and fancy, in lumberyards where people can pick and choose.

Loans are the thing. But along with them goes something harder to see, but just as important. It's dependable banking service backed up by wise financial counseling.

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New Falcon Ranchero

Compact truck! Compact costs! With its low price (well under* most conventional pickups), and high gas mileage (averaged 30.5 mpg in certified tests, including hills, constant speeds on level roads, and simulated traffic conditions), economy never looked so good!

New Styleside Pickup

Whatever your job, you can tailor this Ford to fit it: choice of Six or V-8 . . . 5 transmissions, including Ford-omatic—6½, 8 and 9-foot bodies. '61 Stylesides are sturdier, roomier, easier riding—but priced below all leading contenders!*

*Based on comparison of latest available manufacturers' suggested retail prices

New Econoline Pickup

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DUN'S REVIEW
AND MODERN INDUSTRY
August 1961

EDITORIAL

The Conservative Rebels

THERE is a built-in stabilizer in human affairs that eventually offsets the trend to any extreme, although the time lag varies by geographic, political and economic levels of society. The resurgence of the conservative spirit is more than the whim of a new crop of college boys who are turning "agin" the left-wing and anti-business philosophy on campus. Nor is this resistance to the liberal point of view evidence of a Tory attitude in a flag-waving fringe of zealots.

Rather it is a counter-trend of men and women not easily labeled or classified. They are attempting to find a voice for the inert and complacent majority which grumbles and mumbles but never speaks out clearly in its own behalf.

What does the new conservative want? What positive program does he stand for? First of all, he reflects the growing antipathy of a large segment of the population to the "big government" motif, and the drift towards a welfare state. This is a trend which crosses party lines and regional attitudes. Citizens know that one fifth of the total economy is government-operated and government-managed at the expense of the other four fifths. Some of this is, of course, inevitable in the political atmosphere of the day in which we live. But the conservative is alarmed at the spread of government tentacles into every phase of business, health, education and civic life, and he is well aware he must share the blame through his passive approval or cynical acceptance of this drift to state control.

In our oversimplification of trends, attitudes and opinions, we usually divide people as right or left of center, as conservative or liberal, as Tory or rebel. The businessman, the industrialist, is presumed to be a conservative by tradition. Yet what is a conservative? Many businessmen are independent thinkers, not easily classified or labeled. The range can be as far apart as Cyrus Eaton and Robert Welch, just as the range of opinion among union leaders can be as diverse as that between Reuther and Hoffa.

The citizen whose job, property and future are menaced by the trend toward socialized living has reason to ask questions. He observes, too, a curious contradiction, for the USSR and its satellites are permitting capitalistic techniques and incentives to creep into the day-by-day manufacture and distribution of goods, while the U.S., with its free and competitive system, is adopting more and more of the restrictive measures of state socialism.

The tension between the liberal and the conservative mind is necessary to test the merits of economic and social ideas. Yet the conservative, looking at the business front, is concerned with increasing restraints which hobble the free movements of the "big" or "little" man at the wheel of his business, and limit his capacity to make a profit. The conservative reminds the liberal, who is often inclined to berate the profit-making potential of a business, that profits are the plasma of a prosperous nation. Red ink is not.

There is a gray area of common sense lying between the doctrinaire liberal and the deep-rutted conservative. For though time often changes the rebel to a tyrant, time also mellows political and social antagonisms. Progress never moves in a straight line. Neither does it follow a slant to the left or a zigzag of the right. Instead, it maintains its own sporadic impulses, and the liberal and conservative eventually bump heads, following independent and opposing trails.

Perhaps here is renewed evidence that the new conservatism is in truth the rebellious spirit of the individual, made manifest against the mass absorption of individual personality in "big government."

KENNEDY and the Businessmen

So far, business has seen few major changes under the new President. But the shape of things to come is another matter—and it is slowly emerging as the Administration draws up its plans for 1962.

AS A sweltering Congress slogged on through what remained of the President's 1961 legislative program, many a weary legislator had his eye on the calendar and his thoughts on a Labor Day adjournment. To many Administration officials, though, the return of cool autumn days to Washington meant something quite different. For it is then that President Kennedy's plans for the U.S. economy will begin to be hammered into shape.

Those plans, which the President will submit to the reconvened Congress in January, will be of vital importance to all Americans, but they will concern no one more urgently than the U.S. businessman. They will spell out, more clearly than anything to date, just how far Kennedy intends to go in using the tax, spending and regulatory powers of the Government to achieve his goal of a faster growing, more prosperous America.

A hands-on policy

What can business expect from the Administration in the crucial months ahead?

The President repeatedly has made it clear that he is prepared to step into national labor disputes whenever he deems it necessary. With the full backing of Kennedy, Secretary of Labor Arthur J. Goldberg has rejected the Eisenhower hands-off policy. He made his attitude plain the day after inauguration when he intervened in the New York tugboat strike, and he underscored it again in the airline and shipping strikes.

What both the President and the Labor Secretary are currently trying to decide is how much pressure to bring on Congress for a wide-ranging law to give the Government an assortment of weapons it can use to try to prevent crippling strikes in major industries. They have made clear their dissatisfaction with the Taft-Hartley Act. The President, said Secretary Goldberg early in the shipping strike, should have "a variety of mechanisms" to choose from when labor and management come to an impasse. "Uncertainty as to the President's action," he added, "would aid in settlement of disputes."

The Administration's chief goal in labor-management relations is peaceful settlements that will not lead to higher prices. The President and his advisers feel that the only real inflationary threat is a cost-push movement. They fear that prices will go up if wage advances exceed productivity gains—and if management is unwilling to absorb the added labor cost by trimming profit margins. Secretary of the Treasury Douglas Dillon, the Council of Economic Advisers and other key officials think there is almost no likelihood of inflation being brought on by excessive demand in the marketplace. They point out that there is idle production capacity, idle manpower and no shortage of supplies.

White House advisers now believe that business activity will be climbing vigorously but unemployment still will be uncomfortably high when decision time comes on next winter's Big Three Presidential messages—the State of the Union address, the Budget message and the Economic Report. They anticipate that tax revenues will be rising fast enough to provide a moderate budget surplus for the following year.

How to slice a pie

Kennedy will have to determine how much of that budget surplus he is willing to use for still bigger Government spending programs, how much he wants to retain for reduction of the national debt, and whether he wants to sacrifice some spending, some debt reduction or some of both for a tax cut.

The spending proposals that will be laid before the President could absorb all of the budget surplus and then some. Back in May, when the Administration completed its "second-look" economic review, Kennedy declined to go along with advisers who wanted a big additional public works program. He had long since ruled out an emergency tax re-

HEAVY ANTITRUST artillery, like that which forced du Pont (*left*, its Sabine River Works) to start selling its stock in General Motors (*right*, an auto production line), may well be leveled against other big U.S. corporations soon.

duction to stimulate business activity. Both plans, he felt, would create excessively large deficits this year and would mar his fiscal reputation. Moreover, they were politically unacceptable to Congress.

The President is committed to proposing a general "revision" of the tax laws early in 1962. His program is expected to include a far tougher attack against loopholes than he put forward this year, along with additional business investment incentives and a cut in top-bracket individual income tax rates.

The big question

But the big question is: Will Kennedy merely suggest offsetting tax changes or will he instead urge Congress to cut Treasury receipts? In any case, as recent events once again have made brilliantly clear, where tax issues are at stake, the President proposes but Congress disposes.

In all this, there are several things to remember. Kennedy believes the Government should use its authority to spur economic growth, to improve U.S. living standards and to smooth the ups and downs of the business cycle. But he has, too, a strong streak of political conservatism and a keen sense of what is politically feasible. He is neither radical nor extreme in his thinking.

The President has preempted the middle of the road just as President Eisenhower did, but he is no more a middle-of-the-roader than his predecessor was. He travels slightly on the left as Eisenhower traveled slightly on the right. Kennedy is not driving toward his economic and social objectives with sufficient speed to please his more liberal advisers, such as Council of Economic Advisers Chairman Walter W. Heller, Secretary Goldberg and Budget Director David E. Bell. He is, however, holding together the Congressional support that would tumble away if he tried to do much more, much sooner.

Kennedy wants to be a great President. He wants to point to a solid record of domestic accomplishments, not to a head that he bloodied tilting against windmills. The President frequently reminds his more enthusiastic subordinates that they are free to recommend theoretically perfect solutions to government problems, but that he must make the final political decisions.

His Administration does not have a blueprint for domestic action. It has some goals and some guideline principles. Unemployment is to be reduced to 4%. The economy is to grow at a faster yearly pace of 4.5%. Business is to be given greater incentives, for faster growth can be achieved only by stimulating private investment rather than consumption. And there are the social welfare and public investment objectives — more schools, housing, medical care and the like.

NEW ANTITRUST chief Loevinger is out for strict enforcement of the laws.

These are not precise goals. But they do point the general direction. Where Eisenhower wanted to curb the Federal Government, Kennedy is actively trying to enlarge its responsibilities.

For many businessmen, regulatory policy is where these broad goals come into sharpest focus. Here, one fact is already clear. Unless all the signs fail, the regulatory agencies soon will be taking a harder line against the industries they watch over.

The change may not be quick in coming. Even after Kennedy gains Democratic majorities on the commissions, most of the members will still be holdovers from the past Administration.

The boat rockers

But important differences soon will be noticeable, or there will be widespread misery among the key men Kennedy already has named, men such as Newton C. Minow, the Federal Communications Commission chairman, who jolted broadcasters by telling them to their faces that TV is a "wasteland"; Paul Rand Dixon, the former Kefauver Investigating Committee counsel who now is chairman of the Federal Trade Commission; Joseph C. Swidler, the brilliant former Tennessee Valley Authority

expert who is supplanting Jerome K. Kuykendall as Federal Power Commission chairman. These are all men who believe in the Kennedy doctrine of "vigorous" government.

Actually, the loudest business control fireworks that have exploded since January were delayed action bombs set by the Eisenhower Administration. One was the Supreme Court order that du Pont must get rid of its General Motors stock within ten years. The other has been the continuing repercussion of the electrical industry price-fixing cases. Lee Loevinger, Assistant Attorney General in charge of the Antitrust division, is promising stern enforcement of the antitrust laws, and he intends to build upon the decisions in the du Pont and electrical cases. If anything, the outlook is for a larger proportion of cases against big companies and a greater number of cases directed against industry domination and monopoly power. It is part of the Administration's philosophy that although government regulation of the economy is to be toughened, competition is, in fact, to be preserved and reinforced. If plans proceed as hoped, living standards will rise but so will profits.

SENATE Majority Leader Mansfield will propose—and compromise.

Kennedy's keen awareness of the need for facing up to political realities means that he is prepared to compromise to achieve his legislative objectives on business issues as on others. Consider, for example, what happened to the minimum wage legislation. The President engineered passage of a progressive 25% increase in the minimum wage to $1.25 an hour and a substantial broadening of coverage to additional workers. But he won approval of his measure only by heavily cutting his original coverage demands and by agreeing to exempt several strategic groups of workers who had long been protected by the wage-hour law.

Among the unhappiest groups of businessmen are the nation's private utility executives. They are girding for new battles on the bitterly controversial public power issue. This year the White House endorsed developing the power features of a Hanford, Washington nuclear reactor and supported Federal rather than private transmission lines from the Colorado River Storage project.

Actually, former Secretary of the Interior Fred A. Seaton approved federal transmission lines just three days before he left Washington. Secretary Stewart L. Udall did little more than add a few embellishments to the Seaton plan. But Seaton never mustered the ardor Udall has displayed for a program that is a key feature of a grid system that public power advocates hope will one day join the major Western power projects.

So far, the public power struggle has been comparatively quiet. The Eisenhower Administration clamped down on planning and blueprinting of public power projects, and Kennedy found relatively few new hydroelectric programs ready to be brought forward when his Administration took office. By next winter, however, this situation will have changed, and the tussle will be on.

The score so far

So far, Kennedy has been winning far greater acceptance for his program than the pundits had anticipated. Liberal Republicans have supported many of his social welfare programs. So have conservative Southern Democrats who were influenced by party pressures, the lure of federal judgeship patronage and a large number of special legislative concessions to small towns and rural areas.

In addition to the modified minimum wage bill, the President has gained acceptance of a number of other major proposals, including housing, social security, depressed areas and emergency unemployment compensation measures.

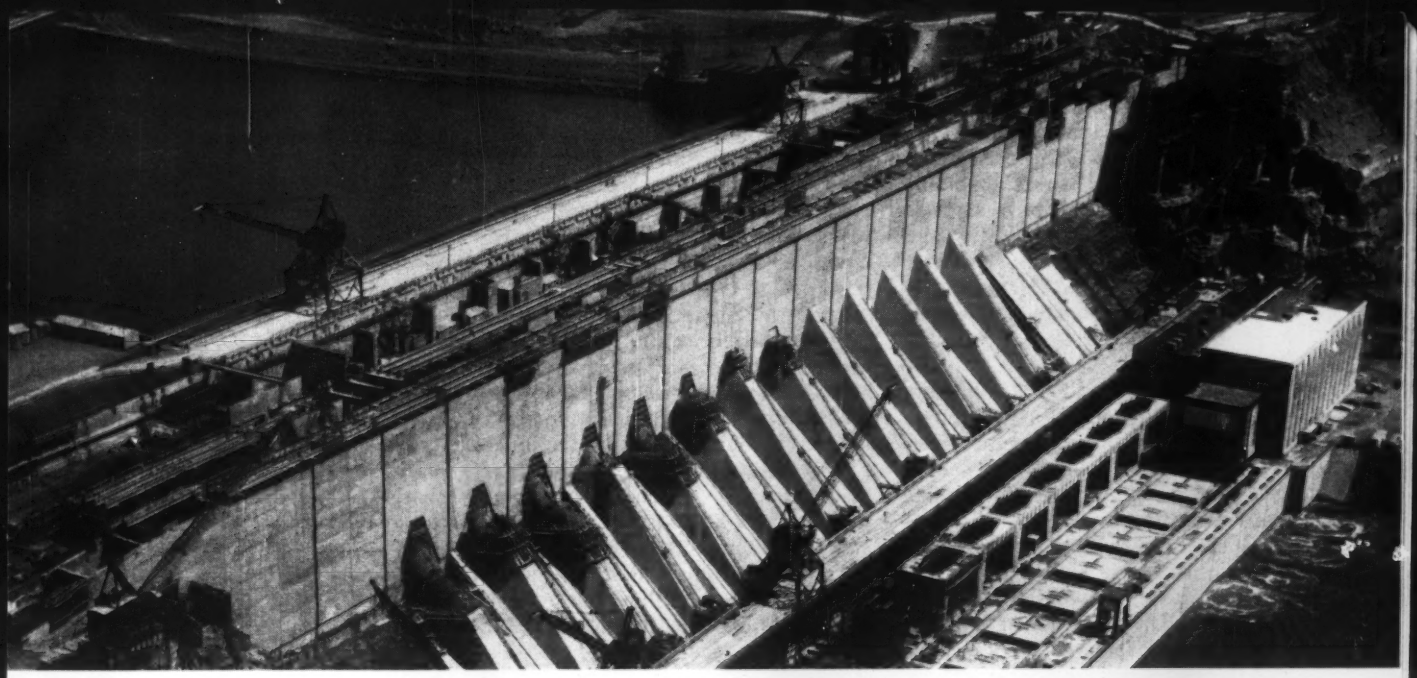
Business did not like Kennedy's novel tax incentive program, and the powerful House Ways and Means Committee responded by rejecting the White House version. Business groups were equally successful in torpedoing the President's initial foreign subsidiary tax proposal. They also convinced the Ways and Means Committee that it should not accept Kennedy's original basket of loophole-plugging recommendations—a basket that included the extensive expense-account crackdown, the withholding of individual income taxes on dividends and interest and the repeal of dividend-received credit.

One big business group broke sharply with the Administration in July when the 27-year-old Commerce Department Business Advisory Council rebelled at demands by Secretary Luther H. Hodges that it accept greater control by the government.

That there will be more business opposition to much of the legislative program Kennedy will present to the Congress in January is certain—far more certain than the details of the program itself. Those details will be taking shape in the weeks ahead, as Kennedy chooses among the competing Federal spending programs and the claims of competing groups for tax reduction. The youthful President's Administration is still young.

—JOSEPH R. SLEVIN

HOUSE SPEAKER Rayburn will have to battle for Kennedy's program.



MILLIONS OF DOLLARS' worth of tax-exempt New York State bonds helped to finance this giant dam over the Niagara.

Little Risk— and an 8% Return

Most executives know little about them, but municipal bonds can bring a glittering return to the man in a high tax bracket.

MOST EXECUTIVES, so alert when it comes to handling company money, are overlooking a good bet for their own family savings. They do not realize that the man in the proper tax bracket can obtain the equivalent of 6% or even 8% on his money, with very little risk, in tax-free public bonds—or "tax exempts" and "municipals" as Wall Street calls them.

Most executives and businessmen today own common stocks, but prudent financial advisers are quick to advise keeping a rainy-day fund in something less volatile than common stocks. Insurance is one such investment, of course; no sensible executive would be without it. There are a number of others. There are savings banks. These pay 3½% or so on their time deposits. There are U.S. savings bonds. They yield 3¾% held to maturity. Increasingly popular these days are the savings and loan associations. The S&Ls pay dividends as high as 4½% —and sometimes even more.

But by switching to "municipals" the investor can earn an effective rate of as high as 8% on his rainy-day money. And he can do so with no sacrifice of safety and very little sacrifice of liquidity.

The reason, of course, is that the tax collector cannot get at the interest payments from these bonds. In 1819 Chief Justice John Marshall ruled that a state could not tax an instrumentality of the U.S. Government ("The power to tax is the power to destroy"). Subsequent interpretations of his famed McCulloch *vs.* Maryland decision forbade Uncle Sam to tax instrumentalities of the state and local governments.

A bond being such an instrumentality, the interest from state and local bond issues has always been safe from the tax man. States, municipalities,

counties, school districts and public authorities all enjoy the immunity that Justice Marshall established for them 152 years ago. So do innumerable "public authorities" which operate bridges, toll roads, sewer, water and electrical systems. Some municipalities have even used the tax exemption to finance factories with which they have lured new industries to their jurisdiction.

As the income tax became more severe, the value of the tax exemption grew. It may become even more valuable a few years from now. There is lively talk in Washington of extending the withholding principle to dividend and interest payments. Such a further intrusion of Uncle Sam into the citizen's private affairs would bother municipal bond holders not at all. Municipal bond income need not even be reported on federal income tax returns. Nor is this all: such bonds are even exempt from state income taxes in the state where they are issued.

"Take-home" income

A little arithmetic will show how valuable this exemption can be to the heavily taxed executive. Let us take a $20,000-a-year New York City executive, who has perhaps $5,000 in deductions. On every additional dollar he earns, he must shell out 30% to Uncle Sam plus 7% (after federal tax credits) to New York State. Total tax bill on the extra dollars: 37%. Let us suppose this $20,000-a-year executive puts $5,000 in a savings bank at 3½%. Of the $175 in interest, Albany and Washington will take $65. Net after-tax return: $110, or 2.2%.

But suppose the same executive invests $5,000 in New York State Power Authority 3¾% bonds at around par. He will get $187.50 in annual interest, free and clear of all state and federal income taxes. To match this "take-home" return on his investment, the $20,000 executive would have to find a pretax yield of close to 6%. As the tax bracket mounts, so does the advantage of owning tax-exempt bonds. An executive earning a taxable income of $32,000 would have to find a pretax yield of close to 8% to come out as well as he would by investing in a tax free bond.

There are advantages, too, even for those who are relatively modestly well off. A retired executive paying 20% on part of his income could do almost as well in a 3¼% municipal bond as he could in a corporation bond or preferred share that would pay him 4¾%.

Needless to say, none of these people could find a fixed-income investment yielding 5%, 6% or 8% which would give them anything like the protection of a tax-free public bond. For, beside their high take-home yields, most of these issues have a safety rating second only to that of U.S. government issues.

In most cases the safeguards are most impressive. Consider what stands behind the bonds issued by a municipality. The bonds have a prior claim on the city's tax revenues. In case of default the bondholders have the legal right to attach all the property owned by private citizens within the issuers' jurisdiction. Even if things never came to such an extreme, it is obvious that any municipality would go to great lengths to avoid a default of payment on its bonds.

So high is the safety factor behind tax exempts that even in the dismal Thirties few issuers defaulted. One expert has estimated that barely 4,000 out of some 160,000 local governments have ever reneged on their debts. Even in the Thirties, the expert continues, total losses came to well under 1% of all the money invested in tax-exempt bonds. The few communities which did default have never been forgiven: by and large they have to pay a higher rate of interest today than their neighbors.

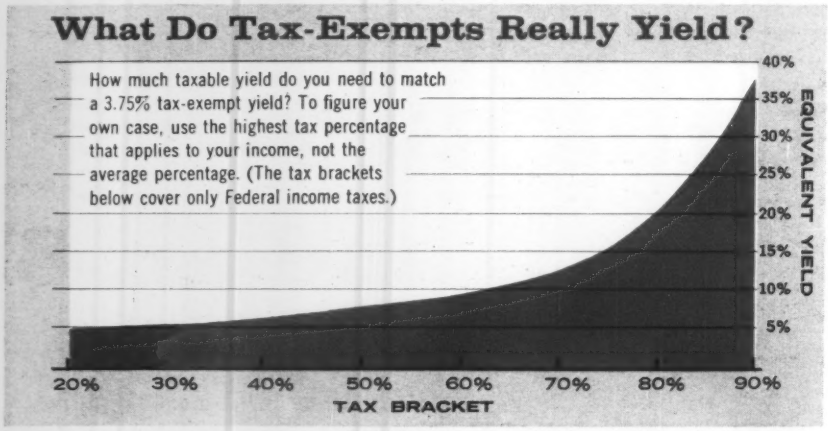
All this being so, why have so few executive investors discovered tax exempts? The answer is fairly simple. The fact is that most securities are *sold,* with customers' men constantly alerting their customers to new investment situations. The tax-exempt bond dealers, however, are not really geared to mass selling. Mostly, they tend to limit their efforts to such big buyers as banks, insurance companies, corporations and millionaire investors. This is not due to any lack of respect for the smaller investor. But the commissions involved are not usually enough to make doorbell ringing profitable.

The commission on a $1,000 tax-exempt bond is $2.50—rising, perhaps, to $7.50 when the spread between bid and asked prices is taken into consideration. But if a broker or dealer buys $1,000 worth of a $10 listed stock for a customer, he will charge $17 or so. On a mutual fund he will earn $50 or more. Under these circumstances it hardly pays a broker to spend much time on a municipal order unless it involves a fair number of bonds.

Thus in buying municipal bonds, most investors cannot expect to sit back and wait for a salesman to call. But with a little effort, they can get the information they need. The average customer's broker will not be much help; municipals are a specialized field. Nevertheless, most big brokerage houses maintain active municipal bond departments and will be glad to help their customers. Commercial banks generally can fill the bill, too. Then there are the big houses which deal exclusively in municipal bonds; they will usually service a small order at a reasonable price if the investor will take the trouble to call on them.

A wide range

At any rate, this is a field in which the investor does need guidance. The $66 billion or so in tax exempts presently outstanding consists of literally tens of thousands of issues, varying



widely as to maturity, interest rate and issuer.

Basically, however, the tax exempts fall into two groups: full faith and credit bonds, and revenue bonds. The former are backed by the full tax power of the issuer. This may be the city of Chicago, Los Angeles County, the State of Kentucky or any of the tens of thousands of counties, school districts and municipalities that dot the map of the United States.

Revenue bonds have, on the other hand, a narrower backing: the income from a specific project. The project may be a sewer system, waterworks, electrical power operation; or it may be a toll road, a toll bridge or even a public park facility.

Generally, the revenue bonds return a higher yield and are regarded as a shade more speculative. A few are currently in partial default, most notably the West Virginia Turnpike issues, but most of them are as sound as the full faith and credit issues. Even in a severe depression, few citizens are willing to have their water service shut off.

In spite of the difficulty of generalizing about tax-exempt bonds, a few basic rules are worth remembering. Among them:

- If you buy high-coupon bonds, find out whether they are callable. Otherwise, the issuer may refund them the first time interest rates drop and you may have paid a premium for nothing.
- Don't necessarily concentrate on bonds of the top-rated communities. You may get a better interest rate at no more risk by investing in a slightly less highly rated area.
- Don't expect much of a yield if you buy very short-term bonds; in this category the individual is competing with banks and corporations.

How Safe is Tax Exemption?

There is considerable sentiment in Washington for doing away with, or at least limiting, the tax exemption of municipal bonds. Some New Frontier economists complain that the tax exemption costs the Treasury around $1 billion a year in taxes and benefits those who least need tax breaks.

Does this mean that today's buyer of tax exempts may wake up some morning and find that Congress has cut the value of his bonds by a considerable amount? The odds are against it. Most experts think it would require a constitutional amendment to do away with the tax exemption. Even then, the amendment would probably not apply to existing bond issues—only to future ones. In that case, outstanding issues might gain through scarcity value.

At any rate, Congress can hardly do away with tax exemption for municipal securities without coming up with an alternative method for financing local government needs. In today's highly competitive capital market, there is little doubt that the average municipal local government borrower would have to pay a far stiffer price for money than he does under the present tax-exempt system.

A bargain

However you look at these bonds, there is no doubt that they are relative bargains in today's market. Recently the Dow-Jones Municipal Bond index showed an average yield of 3.62%. Ten years ago it yielded barely 2%; in 1946, 1.5%.

Nor need the investor sacrifice liquidity to buy tax-free bonds. Most important issues are readily salable, with the round-trip commission and "spread" coming to perhaps $15 per $1,000 bond. And should the investor need money *temporarily,* he need not sell his bonds; most banks will lend as high as 85% to 90% on the face value of municipal bonds.

What, though, of inflation? Inflation could whittle away much of the purchasing power of a municipal bond—as of any fixed-income investment. But remember that a tax-free investment at 3.5% compounded will double in twenty years. Considerable protection, that, against all but the most runaway kind of inflation.

Fads in securities being what they are, it is not hard to understand why municipals have gone temporarily out of favor among small and medium investors. It happens to all kinds of securities.

Who cannot remember the time when even top common stocks were regarded as too speculative for most people? Or when foreign investments were anathema? For that matter, there was a time during the 1930s when municipals were about the only merchandise that most investment dealers could get the public to buy.

So, at a time when the public is mesmerized with talk of inflation and "growth" stocks, it is hardly surprising that tax-free bonds are somewhat out of favor. Fads we will always have. But the astute investor, rather than conforming to the fads, will profit from them. There can be no doubt that at current yields, good tax-free bonds belong in every executive's personal investment portfolio. END

SPURRED BY federal aid, construction of new highways for the nation's 57 million passenger cars accounts for a heavy share of bonds issued by states.

Room at the Top

Can you advance in business today?
Inflexible retirement laws and an
accent on youth promise unlimited
opportunity during the next few years.

ONE DAY recently, the Sun Shipbuilding and Dry Dock Co. went through a simple ceremony that will be repeated in scores of companies over the rest of this year. Sun's President Richard L. Burke was retiring to his 208-acre farm, after 11 years at the helm of the big Chester, Pennsylvania shipyard. In his place came 40-year-old Paul E. Atkinson, who had started at Sun as a shipfitter's helper in the early 1940s.

Seemingly a routine incident, Sun's changing of the corporate guard actually holds explosive implications for executives on all levels of management. Even the man in the middle ranks of the huge 300,000-man corporation of today can at least look forward to finding a chair in the executive suite. For the supposedly tired old cliché about opportunity in business, that "room at the top" so dear to the hearts of the commencement speaker and corporate head alike, is becoming bright reality with every passing day.

Needed: sixty VPs

The opportunities ahead are clear from a study of the 100 largest corporations in America today (*see chart*). Culled from the ranks of such giants as American Telephone & Telegraph, U.S. Steel, du Pont and General Motors, the figures show that the upper echelons of all these companies are fast reaching 65, the age at which the average corporation retires its executives. Among the findings:

- Just four years from now, the 100 corporations will need sixty new vice presidents to fill the offices vacated by men who have reached the retirement age of 65.
- Two years later, 1967, may well become known as the best year in history for executive opportunity, with no less than 14% of those same companies combing their ranks for new presidents.
- Far more difficult to chart, a possible trend to younger chairmen of the board could mean seven openings out of 100 possible jobs in 1965.

Are these DUN'S REVIEW figures too optimistic? If they err, surprisingly, it is probably on the side of the conservative. Done on a man-for-man basis with relatively minor projections, they consider only the positions now existing in business. They make no provision at all for the increasing specialization, technological developments and just plain expansion that are bound to create new vice presidencies.

What is true of the top hundred, moreover, appears to hold for all of industry. The second hundred biggest American companies, for example, show remarkable similarities in their executive make-up. Thus 32% of the presidents of the second hundred, a category which includes such companies as Kimberly-Clark, Philco and Chas. Pfizer, are now in the 60-65 age group, an extremely close parallel to the 34% in the top hundred.

These days, moreover, the very pace of business keeps creating new openings in the top ranks. President Horace D. Gilbert of Miniature Precision Bearings puts it in blunt terms. "The pace is hard and demanding," says he, "and that is why the tenure for top management grows shorter. It is no longer a leisurely cross-country lope but instead a lung-breaking relay race."

Granted, then, that opportunity lies ahead, just where in terms of the cold, hard figures will it come? If the DUN'S figures hold true for all of American industry, as they appear to, the outlook for men currently on the vice president level appears to be particularly bright. No less than three out of every ten presidents are now in the close-to-retirement age level of 60-65. Even more promising, no less than fourteen out of every 100 of them will reach the age of 65 next year. So there seems little doubt that the vice president of today, provided he has the qualifications and abilities for the job, has a better-than-average chance of reaching the president's chair.

Long-lived chairmen

But if the outlook for vice presidents is bright, so is the chance of reaching that position. Three out of every ten of industry's vice presidents now fall into the 60-64 category. Of the younger vice presidents, some 19% of them are now between 55 and 58, meaning that even they will start to bow out of the industrial scene in another seven years. Add these two categories together, and the opportunity becomes almost startling. The fact: just under half of all the vice presidents in American business today are either in their sixties or fast reaching them.

One level of management, though, probably will remain truly difficult to attain in the years ahead. This is the rank of chairman of the board. At first glance, the figures seem to indicate that this will be the easiest position of all to reach. For no less than 73% of all the chairmen are now 60 years of age or older, and only a minuscule 4% of them are now under fifty.

The figures in this case, though,

are not what they seem to be. The man who wants to be chairman of his company will not find it at all easy. For chairmen, having reached the very top, show a very strong tendency to want to remain there. Nearly four out of every 100 chairmen, in fact, are over 65 at the present time.

Will they continue to stay in office? Although nobody can be certain, the present trend may change in the future. By and large, the men who are the chairmen today also were the men who reached office shortly after the end of World War II and have built their companies up to comparative gianthood in that period. They have "made" their companies and stamped their indelible imprint on them. Though he has not passed 65, certainly it would be hard to think of Georgia-Pacific without Owen Cheatham, who built G-P up from a struggling regional company to the nation's top maker of plywood and plywood products.

Yet men like Cheatham are entrepreneurs, builders who fashioned the industrial empires they head today. In their place will come the professional managers, who must preserve the gains they made. And in doing that, they will have to drive harder than ever if their corporations are to come anywhere near the growth rate of the lush postwar years.

For that reason, then, it is likely that more and more companies will turn to youth for their top management. Over the past few years, for example, Albert Nickerson became chief executive of globe-girdling Socony Mobil Oil Co. at the age of 44; Mark W. Cresap Jr. moved from management consultation to the same spot at Westinghouse at 47; and just recently, the $65.4-million (annual sales) Collins & Aikman Corp. installed 34-year-old Donald McCullough in the president's seat.

This accent on youth is not at all hard to understand. For more and more companies are coming to believe with John G. Powers, the 45-year-old president of Prentice-Hall, that industry can best serve itself by serving youth. "The young executive," says Powers flatly, "offers his company a priceless asset—impatience with the status quo."

The big factor

One big factor on the side of the man who wants to move ahead, of course, is the inflexible retirement rules now being followed by most companies. True, some corporations now are permitting personnel to carry on beyond the traditional retirement age of 65. As one recent survey found, though, this privilege applies usually to the hourly worker, not to the man who has reached the executive level.

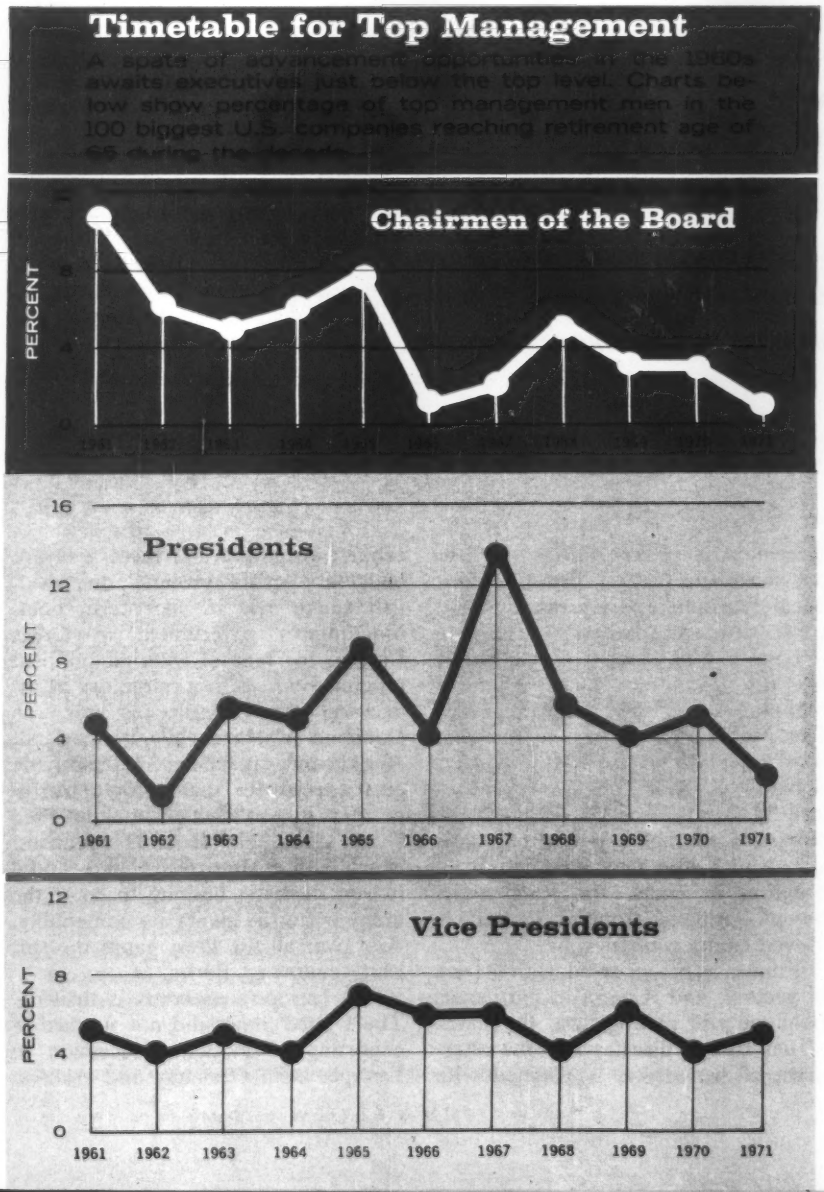
It is hardly surprising, then, that more and more companies already are showing remarkably youthful organization charts. Take the Georgia-Pacific Corp., which long has been the very model of a "growth" company. Including Chairman Owen Cheatham, the average age of the G-P executive is exactly 44.5 years.

As bright as the outlook for advancement is, though, no youthful careerman can count on the upper levels suddenly parting to admit him. For all the great mass of retirements which are coming, industry will, of course, always have vice presidents in the 60-65 years category.

David Mahoney, 38-year-old executive vice president of Colgate-Palmolive Co., feels industry *must* have at least some men in the 60-65 group. "The trend to vigorous, imaginative and younger line executives," he notes, "certainly should not mean any wholesale exodus of older, experienced staff men. There has to be a counter wheel or balance, and that is why we need the older executives as well."

Balance or not, though, those executives will be there primarily to guide the increasing numbers of young men who will find room at the top in the years ahead.

—JACK J. FRIEDMAN



FREE FLOW of trade, key to Europe's economic strength, could be checked by political problems now on the horizon.

Europe's Year of Peril

Just back from Europe, a distinguished adviser on U.S. foreign trade warns businessmen that those vigorous Continental markets will wither unless action on economic problems comes fast.

CLARENCE B. RANDALL

IN THE economic field, this is the year of decision for Europe. It is a year of torment for men of good will, and a year fraught with danger. For much of what has been accomplished in the cause of European economic integration is in danger of severe disruption.

Already, divisive issues are approaching focus. Controversy that will call for cool heads and high moral courage is rising between nations. Indeed, the entire future of integration may soon be hanging in the balance. In Europe's capitals, the career officers who deal with matters of trade, investment and industry are burning the midnight oil. These men know the problems intimately, they know each other, and for the most part they see the area within which agreement is possible. But they are not at all sure that the prevailing political atmosphere will permit a sound consensus to be reached.

History often lays a special curse like this upon the consideration of economic questions. There never seems to be a good time for resolving them on their merits at the international level. And 1961 is a particularly bad time. For Western Europe is passing through a period of political anguish that may hold industrial progress in check for some time, though springing from causes far removed from economics.

France is preoccupied with Africa in general, and Algeria in particular. Belgium, still reeling from the shock of her Congo disaster and the aftermath of her strike, is plagued with cabinet instability and faces a severe budgetary crisis brought on by a spectacular rise in short-term debt. Macmillan's government in Great Britain, for fear of internal political repercussions, is in a purgatory of indecision over whether to join the Common Market, while Switzerland, Austria and, especially, Sweden bristle at the prospect that their powerful partner may defect from the Free Trade Area. The Benelux countries, which abhor controversy and would like to mediate, hesitate to enter the arena when the giants are contending. And over all the West hangs the sinister shadow of Berlin.

Yet Europe's economy is thriving. The United States did not succeed in exporting its moderate recession to Europe. Both Germany and Holland

are actually plagued by overemployment, and the only serious unemployment is in the Walloon area of Belgium, where marginal coal mines have had to be shut down. Standards of living are rising, and almost everywhere per capita income is rising faster than it is in the United States, though the statistics here are somewhat misleading.

Peril for the U.S.

Anything short of full consummation of the Common Market would be a major disaster not only for Europe, but for the U.S. and the cause of expanding world trade everywhere. In the face of the Russian threat, political like-mindedness among the nations of postwar Europe is urgently needed, as President Eisenhower realized. Those of us who were close to the Common Market at its inception shared his conviction that this dynamic undertaking would help to bring it about.

For us, the progress already made by the European Economic Community is incredible. Without a shadow of doubt, it has been the principal source of the revolutionary industrial recovery which has transformed the devastation of war into economic strength. And the inspiring thing is that the business community has not only supported but actually led the various governments in breaking down the old barriers. American businessmen should mark this well, for it is the hope of the future for all nations in our contest with the Soviets.

But now, unmistakably, the Common Market stands at the crossroads. It will either go forward in a new surge of vigor or stumble in midstride. The next few months will tell the story.

The dilemma shapes up like this. France, reluctant at the beginning, has gained much by the Common Market, and knows it. When it was confronted by tough German competition through the lowering of import duties and the elimination of commodity quotas, astonishing new life came to French industry, and hidden strength was revealed. But the Treaty of Rome, which brought the Common Market into being, provided that lowering of trade barriers for agricultural products was to parallel, step by step, the freeing of trade in industrial commodities.

Here West Germany is reluctant. Its farmers have many votes, and the coming autumn elections are critical. It hopes against hope that the cup will pass from its lips, but it may not pass. For France is adamant. Having agreed to faster internal tariff reductions on manufactured goods, which have now reached 40%, France firmly refuses to take the proposed "next step" of a further 10% until Germany, in turn, liberalizes trade in foods and grains. France insists upon a common agricultural policy among the members of the Community. This means both a single level of import restrictions and a common standard of subsidy payments to farmers.

England is anxiously watching every move in this battle of strong wills, for its hour of decision is likewise at hand. British industry and foreign markets are threatened by this burgeoning strength across the channel. The United Kingdom would like to be within the fold, but it too must consider the farmer's vote.

Wise British leaders recognize that agricultural subsidies are too high in terms of Britain's over-all economy. The stability of the pound, of course, must be defended, but to accept a common agricultural policy with other nations is a step bold enough to give British leaders pause. Not only that, but such a move would severely strain its relations with the Commonwealth countries. The very lifeline of New Zealand's economy, for example, is preferred status for her exports of food and grains.

All or nothing

France will also be very firm with Great Britain in another phase of the matter, Britain's status in the EEC. England must either accept the Treaty of Rome as it is, say the French, or stay on the outside. It may not merely be a non-resident member for commercial purposes only.

But in this year of decision, the Common Market is not the only potential storm center in Europe which thoughtful American businessmen should watch. Right now, without our customary delay in reacting to new questions which arise outside our familiar areas of activity, we should try hard to evaluate the significance of the new Organization for European Cooperation and Development. This latest international entity, with its headquarters in Paris, will begin to function authoritatively this fall under the leadership of the distinguished Danish economist, Thorkil Kristensen. Here the United States will be a working member sharing in the deliberations.

The OECD will have three principal committees:

Trade, which will be concerned with general questions of commercial

Foreign Trade and the Randall Record

To his accomplishments as an industrialist (former president and chairman of the Inland Steel Co.,) and writer, Clarence B. Randall has added a distinguished career in government service. Probably his most significant achievement in this area was as chairman of the Commission on Foreign Economic Policy, set up by former President Eisenhower in 1953 to recommend legislation to liberalize tariffs and stimulate trade. What emerged was the historic Randall Commission report, a landmark in the development of U.S. reciprocal trade policy. Mr. Randall also served with special economic missions to Turkey in 1953 and 1956 and as a Special Assistant to the President on foreign economic policy and chairman of the Council on Foreign Economic Policy from 1956 to 1961.

Mr. Randall's sixteen-article series, *The Folklore of Management*, which recently appeared in DUN'S REVIEW, will soon be published in book form.

policy lying outside the scope of the General Agreement for Tariffs and Trade (GATT) meeting at Geneva.

Economic Policy, where the central bankers and fiscal authorities will consider such matters as the balance of payments and currency stability.

Development Assistance, which will seek to arrive at equitable allocations of the burden of aid to the underdeveloped countries.

It is too early to forecast the future of the OECD, but this new mechanism to solve international economic problems has made an auspicious beginning, and may well come to have great importance. We in the U.S. should regard it as an opportunity, and pull our full weight.

Meanwhile, in Geneva, which seems destined to be the ultimate storm center of humanity these days, heavy clouds hang over the GATT conferences.

These sessions which began last September, now seem unlikely to end before 1962. Their subject matter falls into two parts.

In the first phase, as it is called, the Common Market countries presented to the other GATT nations the new levels of their composite external tariff structure. Some rates of the individual EEC members had to be raised, and others lowered, in order to arrive at an average base. Under the rules of the GATT, this required compensatory adjustments to rates on the outside. These adjustments had to be negotiated and then accepted, or "bound," on both sides.

The problem: food

So far, this has not come off. Once more, agriculture is the stumbling block. Some of the EEC members impose variable levies on food imports. They insist upon reserving the right to raise these levies at their own discretion, in order to adjust for changes in the domestic scale of agricultural subsidies. This the U.S. has rightly refused to sanction. And other countries have followed our lead. It would be swapping a horse for a rabbit to "bind" fixed tariffs on industrial goods in exchange for flexible ones on agricultural products.

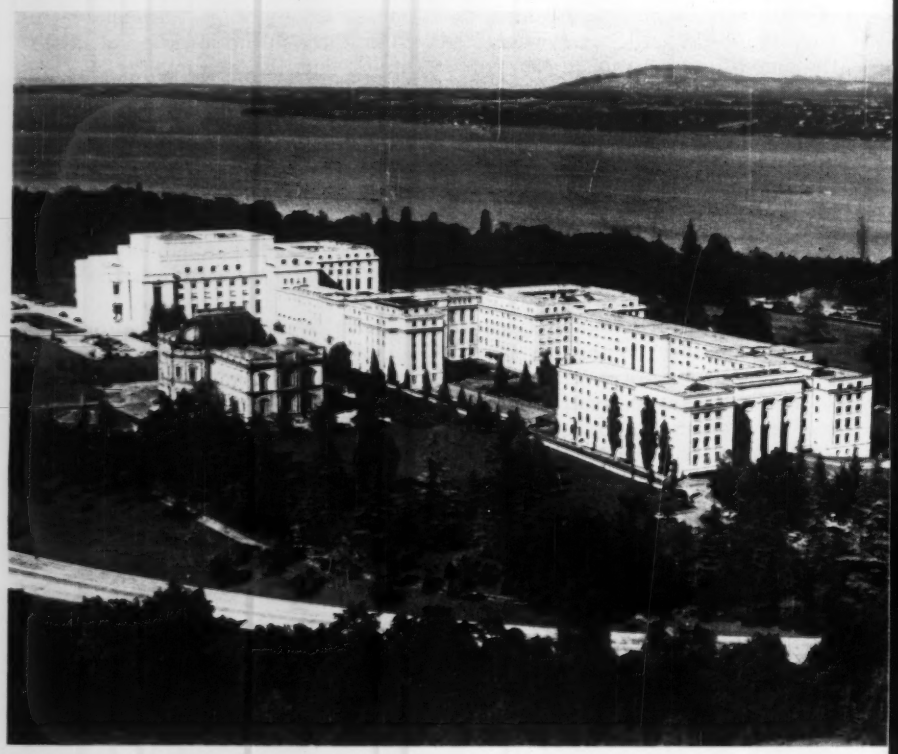
It is, of course, highly unlikely that a tough question like this can be determined in Geneva before the Common Market countries have settled on a common agricultural policy. Hence, there was no alternative to suspending the GATT discussions for the time being, which was done in May.

The second phase of the negotiations at Geneva is now under way. In this new trading, the nations will exchange concessions in the selective and gradual reductions of import duties. This process is bound to go on for months. It is wearisome and highly technical, but it is vital to the growth of our export trade and is thus urgently needed to strengthen our balance-of-payments position.

At the same time, a new economic problem has arrived on the scene in Geneva. The GATT has quite properly been selected as the forum within which the nations will discuss President Kennedy's new proposal that mature economies should equitably share the burden of receiving textile imports from low-wage areas. The membership, agenda and starting date of the conference are all sticky questions, as yet undecided.

In all of these various centers where European economic policy is being talked out, the strong nations must be constantly on their guard to avoid looking like an exclusive club. They must be alert to counteract any inference that their actions might prejudice the welfare of the proud new countries around the world whose industrial history has yet to begin.

France understandably wants to preserve the trading privileges now enjoyed by its former African colonies. And Britain, even as a Common Market member, would naturally want to keep on helping the new members of the Commonwealth. Yet the U.S., never a colonial power, cannot for that reason afford to be excluded from the great new markets that are rapidly coming into being.

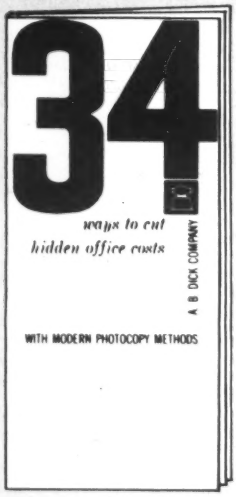


IN THIS Geneva palace, where the old League of Nations foundered, statesmen now must hammer out compromises that the GATT signatories will accept.

Fortunately, all these complex and delicate negotiations are being conducted by experienced men in an atmosphere of good will. Despite strong differences of opinion, voices are not rising, and somehow, somewhere, the answers will be found. When the smoke has cleared away, it will be found that the cause of liberal trade has once again advanced.

For the entire economy of the free world is moving irresistibly and inevitably toward a much greater degree of economic integration. Businessmen in any country who ignore this fact in their forward planning are merely inviting trouble for the future.

END



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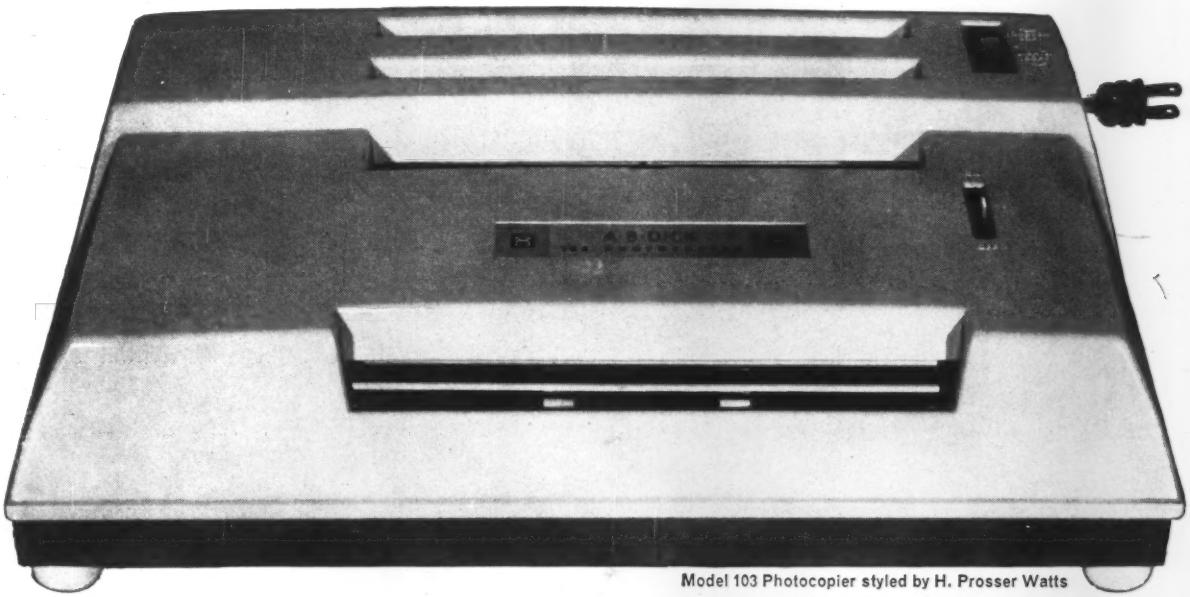

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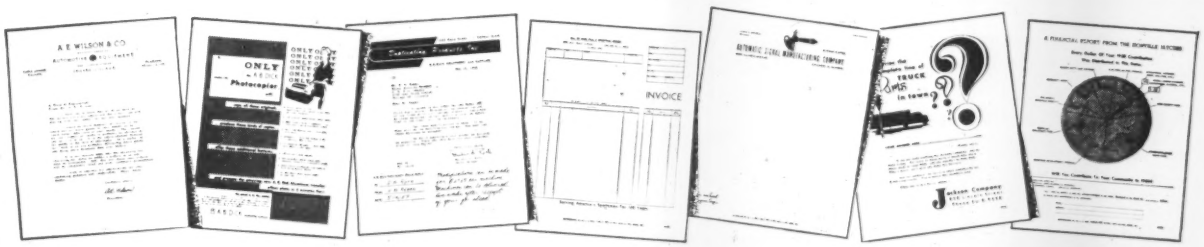

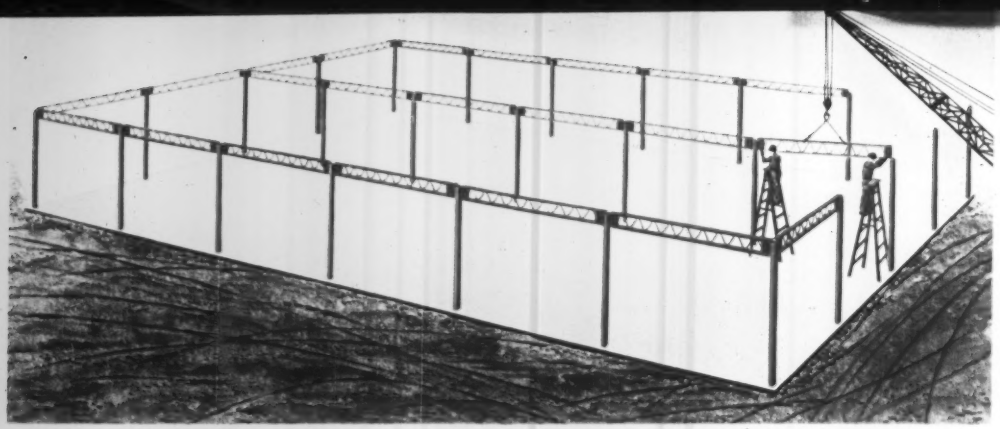

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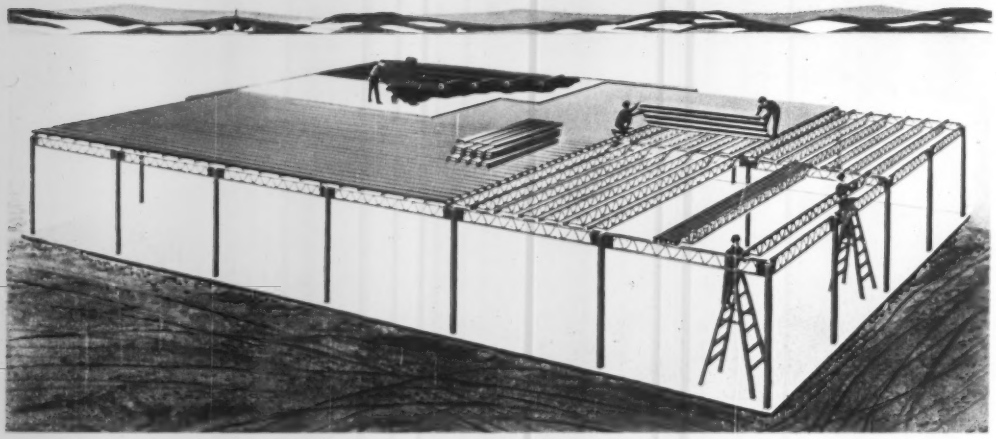

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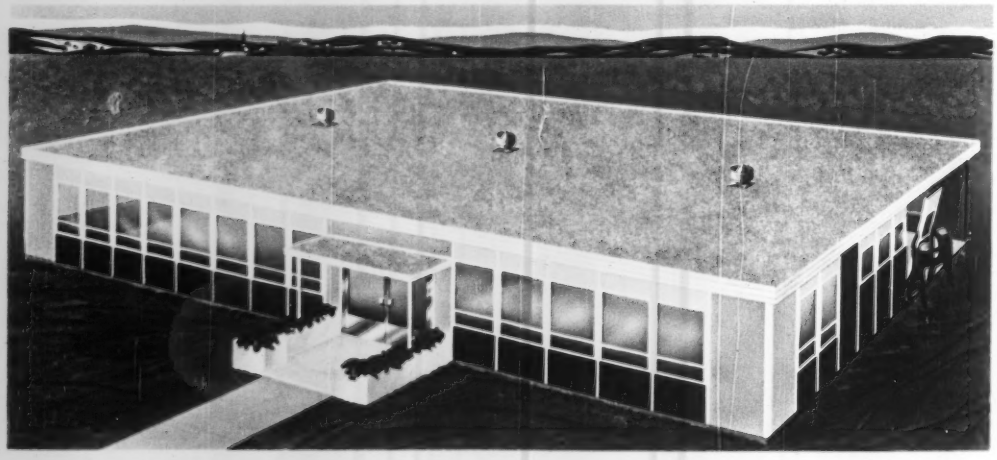

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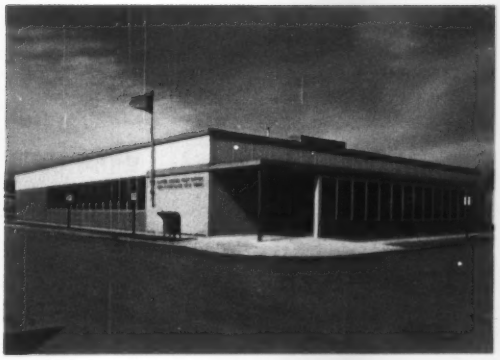

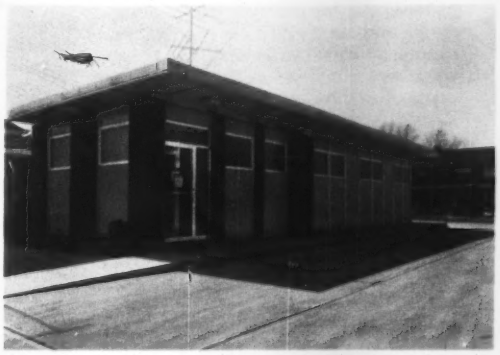

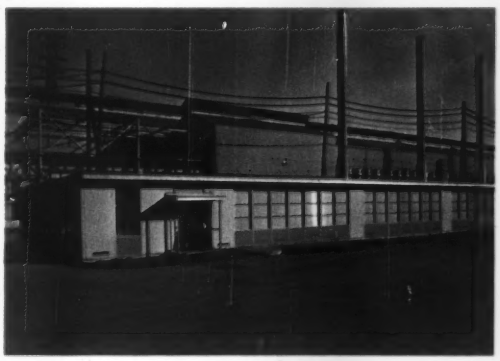

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Must reading for men who make business decisions . . .

Clarence B. Randall's

The Folklore of Management

Important new book explodes pet ideas held by many executives

Clarence B. Randall, former president and chairman of Inland Steel Company and foreign economic adviser to President Eisenhower, knows business, knows business men, and knows the cherished customs prevalent in business circles today. His new book, THE FOLKLORE OF MANAGEMENT, examines critically such subjects as the organization chart — the overworked executive — the urge to communicate — the role of the purchasing agent — the management committee. Randall's observations will make you think . . . will challenge you to face up to reality . . . about many of the myths that have taken root in management practice.

On the Myth of the Perfect Balance Sheet — "The balance sheet is the record of a corporation's past, not a guide to the future. The best of statements may prove nothing but that the company still has momentum from what has gone before." Scoring the depression-developed "countinghouse mentality of many of the men who today are still in management," Randall blasts them as men who "put security above daring and have bequeathed to their successors solvent, but moribund, institutions."

And the Myth of the Cost Cutter — "Whenever the American economy pauses to take a long breath, as it must and should from time to time, the thoughtless executive reaches for the panic button."

The Myth of the Magic Numbers — "Studies and surveys are only guides: They are not tablets of stone handed down from the mountain top to embody eternal truth. What difference does it really make what the average man thinks about anything?"

Or, the Myth of the Magic Expense Account — "Some companies are more widely known for their parties than they are for their product." But, "the best companies . . . those who value the good opinion of thoughtful people . . . have no part in it."

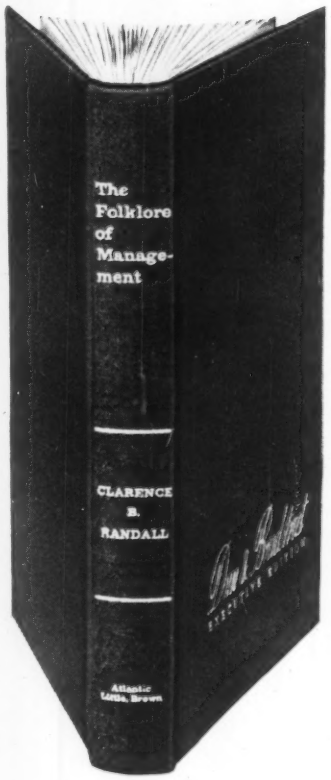
Originally published in Dun's Review, Mr. Randall's articles have earned him high praise from readers for his level-headedness, trenchant style. Here are some comments:

> *"The article on expense accounts is timely, to the point, and should be widely read and heeded. If it is heeded, you have rendered a real service to the country and to business."*
>
> President, manufacturers' association, Washington, D. C.

> *"'The Myth of the Organization Chart' is written entertainingly and with sympathy both for the preparer and the user of the chart . . . should be 'must reading' for all management consultants."*
>
> President, tool manufacturing company, Buffalo

You will find Clarence B. Randall's new book both helpful and stimulating. Published by Dun & Bradstreet in association with Little, Brown & Company, THE FOLKLORE OF MANAGEMENT distills into 224 pages a lifetime of keen observations of the business scene. The book will be off the press September 5, but you can reserve your personal copy now from the first edition to be printed. The price is $4.75, and your order, received on the coupon below, will bring you the special Dun & Bradstreet Executive Edition.

The first printing will have a limited number of copies. To reserve the copy or copies you want — use the coupon below today. When payment accompanies your order copies will be sent postpaid.



The Folklore of Management

Table of Contents

Myth of Communications
Myth of the Organization Chart
Myth of the Management Committee
Myth of the Production Wizard
Myth of the Almighty Dollar
Myth of the Magic Numbers
Myth of the Specialist
Myth of the Cost Cutter
Myth of the Magic Expense Account
Myth of the Overworked Executive
Myth of the Wicked Politician
Myth of the Perfect Balance Sheet
Myth of the Slick Purchasing Agent
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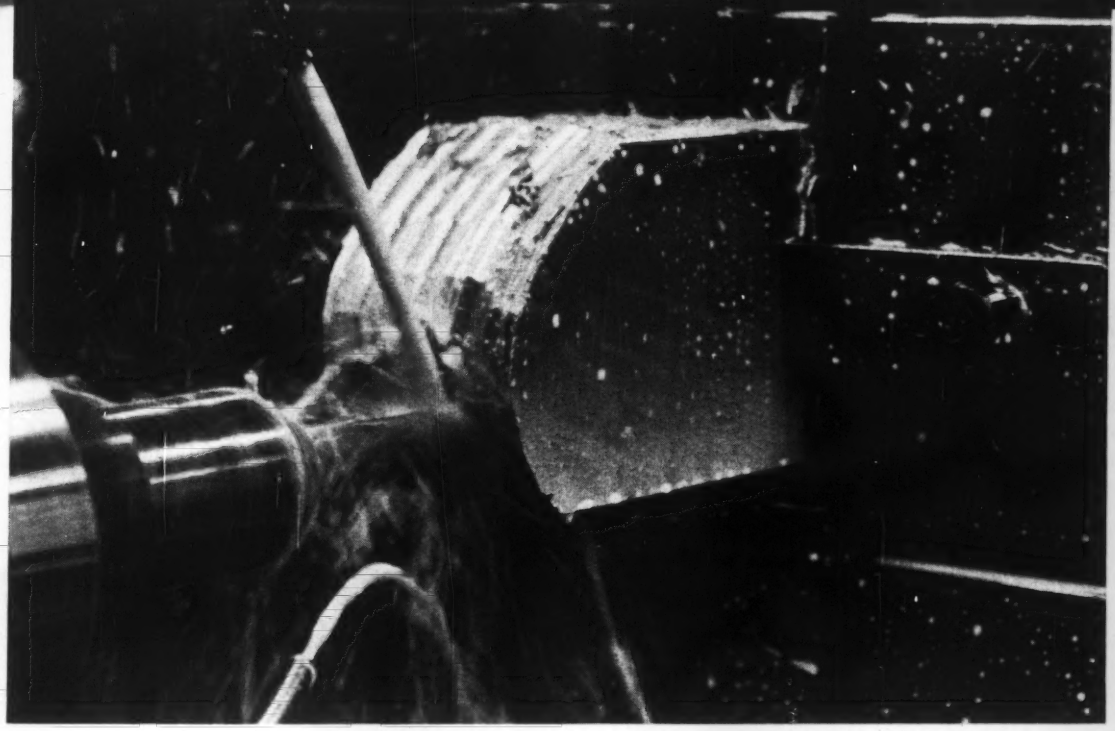


The New World of MACHINE TOOLS

How do you set off a buying wave when customers hang back? Taking a leaf from the carmakers' book, U.S. toolmakers are counting on new models and methods to turn the trick.

"OUR CUSTOMERS are so timid it's pathetic," complains a machine tool company executive. He has been caught in his industry's own private recession since 1958, and he puts at least a share of the blame for his troubles on the nation's metalworking companies. "They don't dare try a new process," he says. "They're just not interested in pioneering even when they can see a profit in it."

Every day, new evidence strengthens his indictment. Take, for example, the study of machine tool replacement just finished by Arthur D. Little, Inc., a Boston industrial research firm. The Little report shows that metalworking companies pay a lot more attention to what their competitors are buying than to their own needs when they are planning their machine tool purchases. So long as his competitor is not buying new equipment, the average metalworking executive is happy to make do with the tools already installed in his plant, no matter how old or obsolete they are.

This, it is plain, is a good part of the reason why the machine tool industry has been sinking into deeper and deeper trouble. The toolmakers' sales have been sagging ever since they reached a postwar high of $1,910 million in 1953. When their sales failed to swing up with the rest of the economy after the 1958 recession, the toolmakers first hoped that their own recovery had been postponed only a little. But the postponement went on and on. Now, while the 1960 recession comes to its end, machine tools stick stubbornly in their $500-$600 million slump. Says a veteran Wall Street analyst: "Here we are in the middle of a solid recovery and machine tools are hardly holding their own."

Other big factors contribute to the machine tool industry's doldrums. One is the heavy overcapacity in most lines of metalworking. This helps hold down orders from the toolmakers' potential customers. Another is the basic shift in defense production from large runs of airplanes and tanks to small, but high-priced, orders for missiles. This has made a change in defense contractors' machine tool needs. They no longer need large numbers of stand-

ard machine tools; instead, they want small numbers of highly specialized tools.

These are changes that the machine tool industry cannot hope to fight—they are quite beyond its control. But it can hope to drum up more business from many of its customers who are not affected by overcapacity or defense production.

And this is why the toolmakers are now engaged in an all-out effort to break down the barrier of timidity among their overcautious customers and build a new, more prosperous world for themselves. "One decent break in that wall might soon produce a steadily growing flow of orders," says one major toolmaker. "Once a few of the leaders in the metalworking business start modernizing, the others will probably have to step up their orders if they are to stay competitive."

The big gain

To start the flow, the toolmakers are now building increasingly sophisticated, complex and adaptable machines. "We don't believe the great bulk of the metalworking industry can afford to ignore these new products and new techniques much longer," says the president of one leading tool company.

Of all the innovations in the toolmakers' array of new equipment, the most spectacular in terms of the gains in productivity they offer are tape-controlled machine tools. An operator working with a conventional machine can usually spend only fifteen minutes out of every hour actually cutting or grinding the piece of metal on which he is working. He spends the other 45 minutes measuring the cuts he makes, adjusting or replacing the cutting tools. But the tape-controlled machine is guided at its work by instructions punched on a paper tape or "fluxed" into a magnetic tape. Most of the stopping and starting, the adjusting and replacing, is skipped.

Some 1,200 tape-controlled machine tools are at work today in metalworking plants in the nation's industrial centers, and 71 different companies are making control equipment for these machines at prices ranging from $9,000 to $60,000. Scientists at Massachusetts Institute of Technology were the first to succeed in equipping a machine tool with tape controls that could guide the machine in a two-dimensional plane. That was in 1951. Since then scores of refinements have been added.

The most sophisticated today are the "five-axis," continuous-path, tape-controlled machine tools, which can carve out parts impossible to make in one piece by any other method. But it takes hours or days of computer programming to prepare the taped instructions for these machines. This can cost huge sums of money, and the initial price of the tools and their controls is enough to make even a prosperous metalworker wince.

So far only the Government has been able to afford these advanced machines, buying them for loan to the big defense contractors. To justify the investment, of course, a metalworker would have to keep the machines busy at least two shifts a day.

But one big potential saving in the cost of programming the machines is on the way. Late in June the International Business Machines Corp. put on the market its Autopromt system for preparing taped instructions for machine tools. This can help a manufacturer eliminate up to 90% of the cost of tape preparation. The heart of this system lies in a reel of magnetic tape that contains the skeleton of a machine program and into which can be fitted step-by-step instructions that will guide the machine as it tackles each job.

IBM guesses that Autopromt will generate much new business for its Service Bureau Corp. computer centers and so will let its customers use the Autopromt system at no cost.

Autopromt is the only simple system generally available for guiding machine tools in complex, three-dimensional work. Many other standard programs for tape-controlled machines, it is true, are stored in libraries set up by the control equipment manufacturers. To match IBM's new move, the manufacturers are bound to expand the range of their tape libraries.

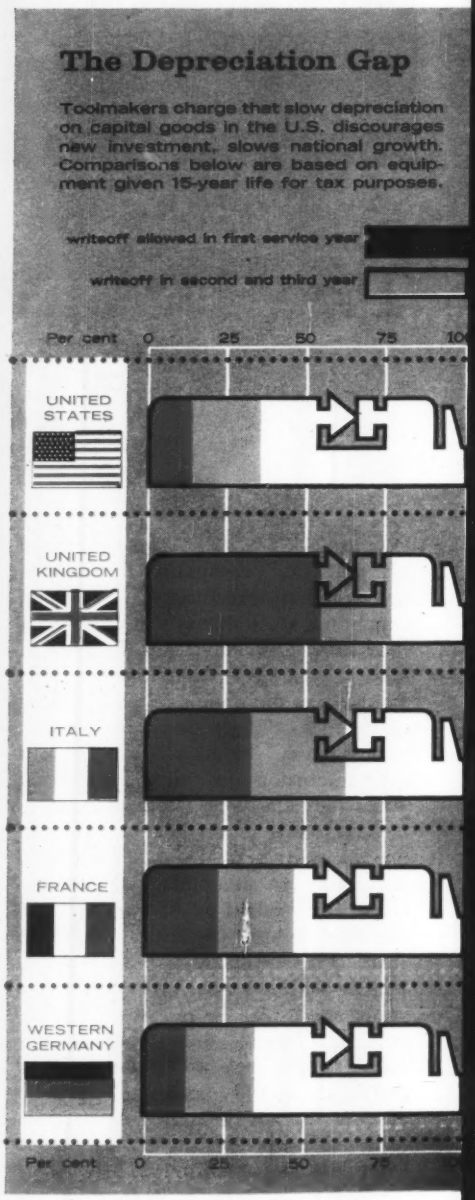
A near-revolution

No less an authority than Warren C. Hume, president of IBM's data processing division, believes industry is on the verge of a near-revolution in tape-controlled machining. "Some day," says he, "the design engineer will simply tell the computer what the function of a part is to be. The computer will come up with the optimum design—and will then produce the control tape for the machine tool."

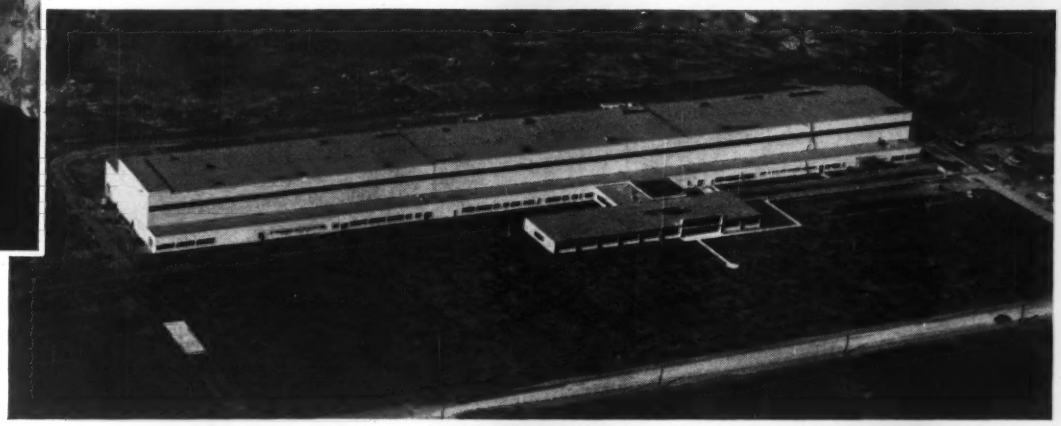
To the ever-hopeful makers of machine tools all this means that those versatile, super-accurate, numerically controlled tools may eventually come within the financial reach of many metalworking companies that have been sliding along so far with older machines and methods.

The toolmakers have been working, too, on simpler, less costly ways of boosting their conventional machines' productivity. They have:

- Devised a system of quick-change tooling for conventional machine tools that make it unnecessary for the cutting angle to be set by hand. "In machining one complex part,"


The Depreciation Gap
Toolmakers charge that slow depreciation on capital goods in the U.S. discourages new investment, slows national growth. Comparisons below are based on equipment given 15-year life for tax purposes.
writeoff allowed in first service year
writeoff in second and third year
Per cent 0 25 50 75
UNITED STATES
UNITED KINGDOM
ITALY
FRANCE
WESTERN GERMANY
Per cent 0 25 50 75

J. M. McAneny



Kellogg's new Power Piping Division headquarters and plant at Williamsport, Pennsylvania

"In Williamsport, Pa., labor productivity from the entire production group has been outstanding"

SAYS J. M. McANENY, M. W. KELLOGG CO., GENERAL MANAGER

1. "Our principal product is the manufacture of intricate piping systems for modern power plants. This work demands the most careful manufacture and the highest degree of craftsmanship. We have found in Williamsport a reservoir of skilled workmen who have met the extremely high standards required. Many of these men have improved their natural skills by taking courses at the Williamsport Technical Institute, which has a history of turning out graduates skilled in all the arts and crafts required by all types of Central Pennsylvania industry.

"The type of workmen living in the Williamsport area reflects the age-old tradition of American Labor, who still believe in giving an honest day's work for an honest day's pay . . . bred in the bones of Central Pennsylvania residents for generations . . . Labor productivity in Williamsport has been outstanding, not just from one or two individuals, but from the entire production group.

2. "Since it was our intention to build a manufacturing plant and also to establish our Division Headquarters in the same city, it was necessary that we locate in an area acceptable to our salaried supervisory and technical personnel . . . we sought a location which would combine most of the advantages of big city living with the economy and social contacts normally associated with small towns. In Williamsport, we found the happy medium—a city with a trading population of 75,000 . . . a populace with a fierce degree of civic pride.

3. "We decided to locate in a city where we would represent a sufficiently large segment of the industrial economy as to be important to the community, yet not so large that the fortunes of the city depended upon our commercial success."

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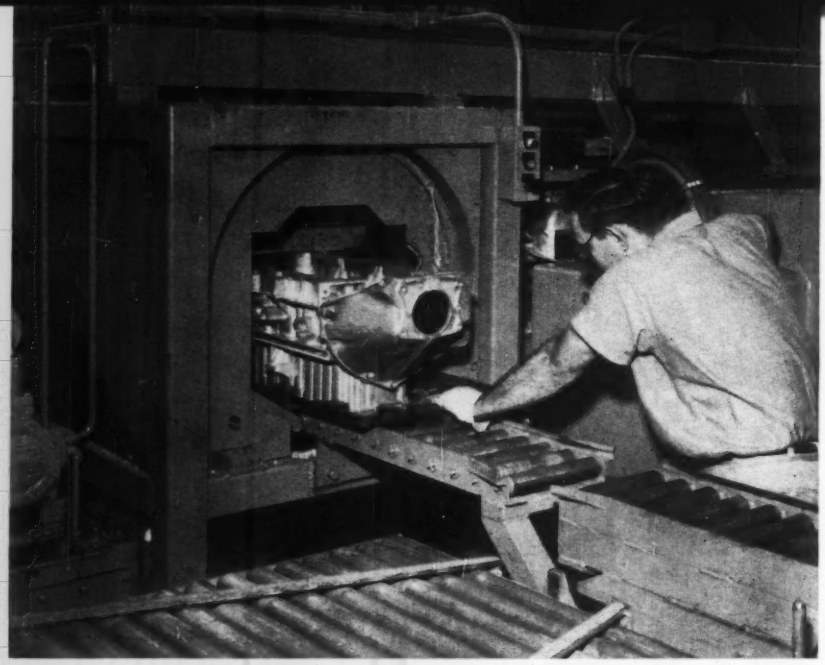


IN DETROIT, as at this American Motors plant, automated transfer lines are becoming more flexible as toolmakers build their machines in modular units.

says a user, "this switch has helped us cut time for tooling changes from eight hours to just ten minutes."

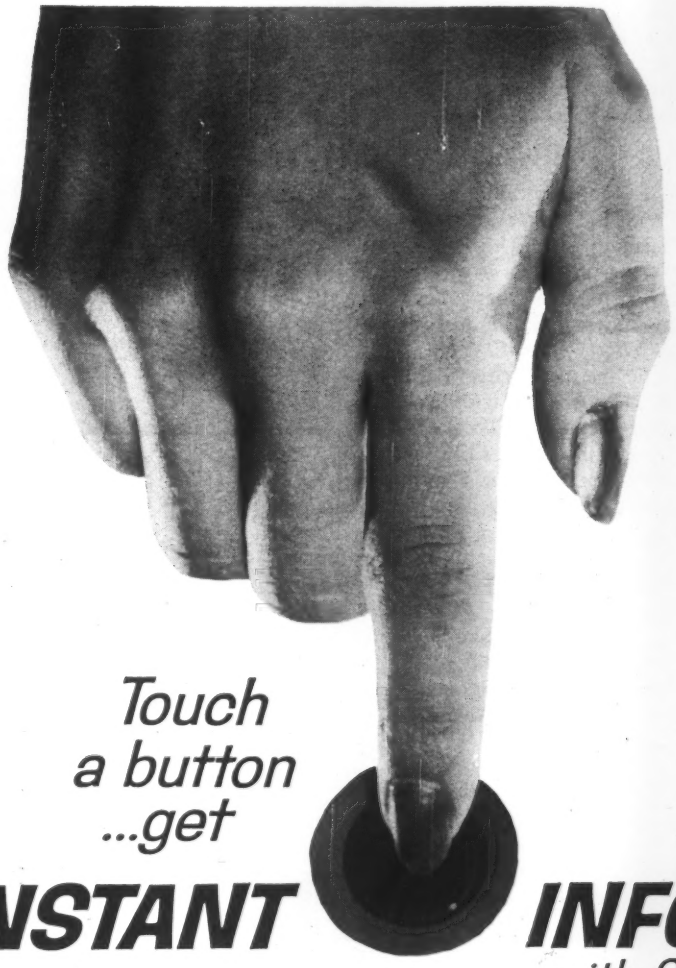
- Redesigned the big transfer machines that are the workhorses of the U.S. auto industry. For instance, Detroit plants no longer must replace an entire line of machine tools at model change time. Their new machine lines are designed on the building-block basis so that one unit can be pulled out of the line and a new one fitted in without junking the rest of the machine.
- Built up the talents of the big transfer lines so that instead of performing only one function, a single system can now mill, bore, turn, grind and broach, and provide heat treatments in between.
- Improved accuracy to the point where ordinary grinding machines that not long ago could work only on specifications of thousandths of an inch now can grind to tolerances of millionths of an inch.
- Cut prices and boosted quality, as, for example, in a bearing race grinder built by Van Norman Industries that takes up only half the usual floor space, needs only $5,000 worth of tooling *vs.* $15,000 worth for older machines, costs from 20% to 35% less than previous models and has 30% more productive capacity.

On the horizon are even more startling advances due from the toolmakers. Four companies are working now on machines that will drill metal parts by electrolysis. By a technique of reverse plating, these machines can carve today's super-hard alloys ten times faster than any steel or carbide tool. Another exotic technique, still a long way from use in industry, is machining by means of concentrated beams of electrons or streams of plasma—ionized gases hotter than the surface of the sun.

But all that is the promise of the future. The reality of the present is that the nation's metalworking companies are content to get along with machine tools that average, by the best surveys, well over ten years in age. The toolmakers, not unnaturally, put most of the blame for this on the timidity of their customers. But they reserve some of the blame for the Federal Government, on two separate counts.

First, they charge, the Government is in direct sales competition with them. During World War II, Washington acquired 25% of the nation's stock of machine tools. And lately it has been disposing of them at bargain prices. This, the toolmakers complain, takes a large bite out of their potential sales and breeds a price psychology among the buyers that has grown into a long-term danger for the machine tool industry.

"The buyer," says William J. Pinkerton, vice president of Detroit's Micromatic Hone Corp., "finds the immediate saving in buying government machines too tempting to resist.



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The toolmakers' second count against Washington stems from the Treasury's depreciation allowance policy. With the solitary exception of West Germany, the U.S. permits a smaller write-off on a new machine tool during its first year of service than any other major industrial nation (*see chart, page 40*).

"Look at the new British depreciation rules," says Francis J. Trecker, president of Kearney & Trecker Corp. "They let a manufacturer credit 20% of the purchase price of a new machine against taxes immediately, and the full cost in just five years. That's the only way we could catch up here on underdepreciation."

Even that tells only part of the problem. As the toolmakers readily admit, most of their smaller customers fail to take full advantage of the depreciation charges allowed by present tax rules.

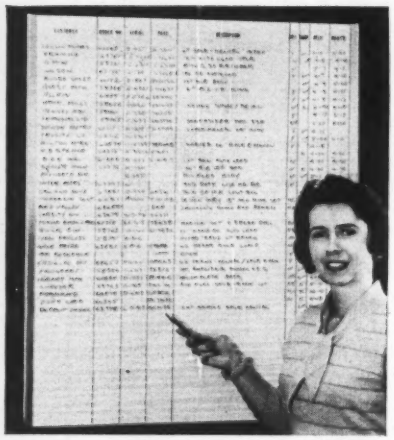
"Meat of the coconut"

Adding to the depreciation woes, the toolmakers do not believe that President Kennedy's proposed new corporation tax rules, touted as a means of stimulating capital investment, will have much benefit. "They just don't touch the meat of the coconut," says George H. Johnson, president of Gisholt Machine Co. Adds another toolmaker: "What we need are tax laws that stimulate modernization—not just expansion."

However harsh, most of the toolmakers are facing up to the political realities; they do not expect liberalized depreciation rules this year or next. But there is growing awareness in Congress of the problems posed by the present rules, and the toolmakers are most optimistic about the chance for changes in the middle years of this decade. The question, though, is whether the metalworking industry can afford to stick with its old machines for that long.

Henry F. DeLong, head of General Electric's Metallurgical Products Department, puts the question in sharp focus. "By neglecting to modernize," he says, "the metalworking industry is wasting $1 billion a year —twice the amount it is now spending for machine tools."

—MELVIN MANDELL



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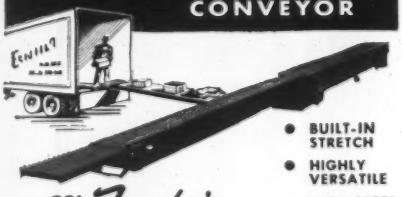

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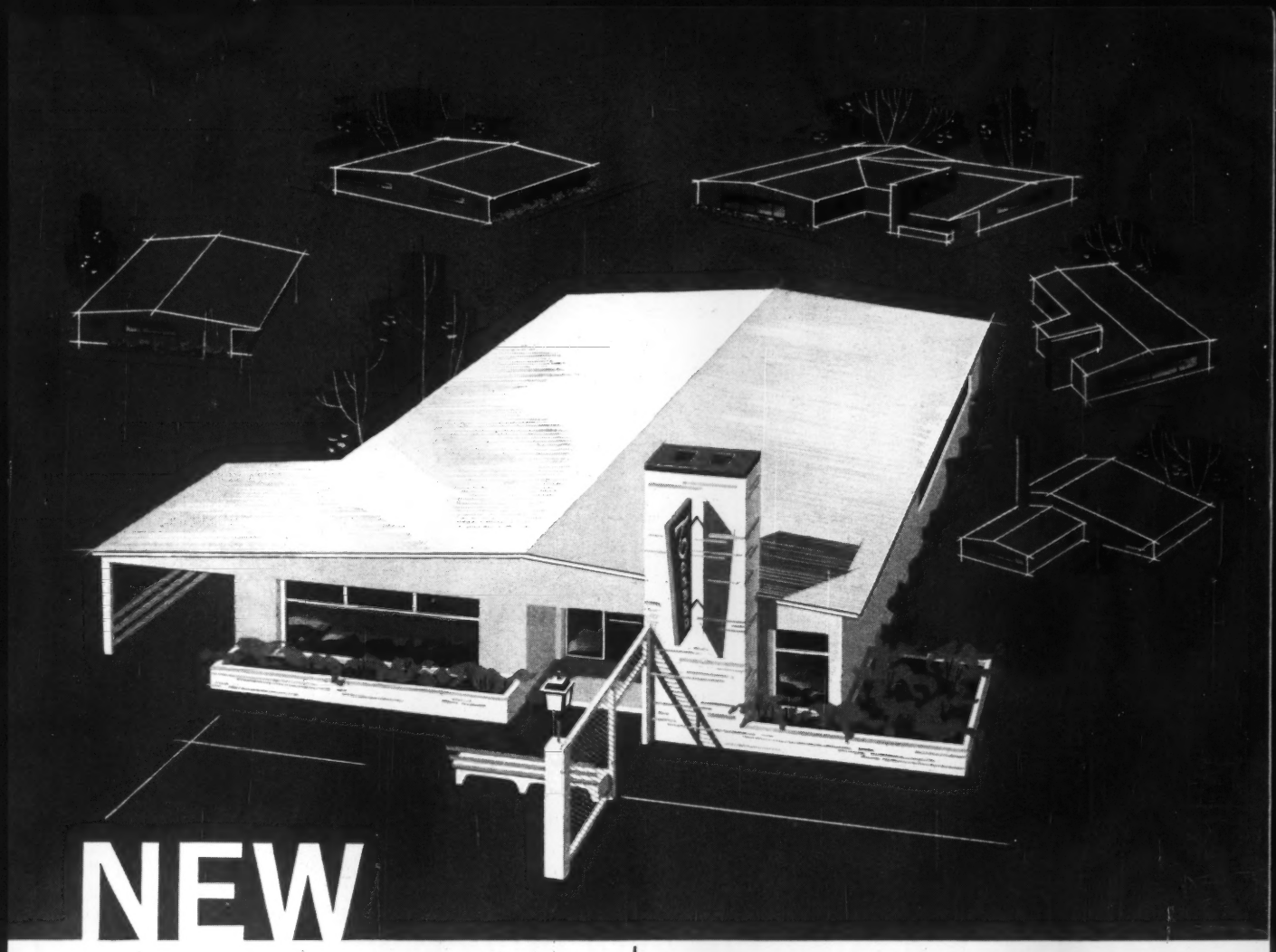

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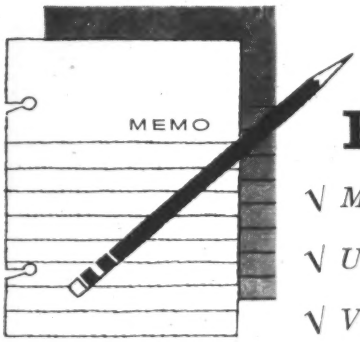

Personal Memo

√ *Making your home an investment*

√ *Unsuspected danger to executive eyes*

√ *Vital points on summer home insurance*

CAN YOU AFFORD to sell your house? Many a businessman, with his children now grown up, would like to sell that big, empty house in suburbia and move his wife and himself to a city apartment. But the thought of the capital gains he would pay may keep him living in the house for years after the children are gone.

Yet there is one part of the law which, under certain circumstances, can enable you not only to avoid the tax but obtain a fairly high yield on your money as well. This comes from the provision in the capital gains law which covers the sale and purchase of "like property."

How does this help if you want to move into that city apartment? This way: you lease your house to tenants for what the law calls a reasonable amount of time (you have to watch that wording), thus enabling you to change its legal status from a residence to an investment. Once that change has legally taken place, you can later sell the house and put the money into another investment property—one that will give you the high yields to be found in real estate and also put off the capital gains tax indefinitely.

It must be stressed, though, that this is a device which calls for the advice of a competent lawyer or tax expert each step of the way, since in changing the nature of your property you make it much more valuable. Too, you must check on exactly how long it will take for your original home to legally change its status (generally from two to ten years, varying from one tax district to another).

The point to remember, though, is that you cannot have things two ways. If you turn your house into investment property, you must put all of the eventual sales price into other rental property. Otherwise, whatever amount you hold out to buy a house or apartment for your own use will be taxed as capital gains, and you will have lost much of the advantage you might have gained.

• • •

Over 40? Then, doctors say a yearly eye examination is a must, no matter how good your vision. Reason: early detection of a serious eye condition that usually appears after 40 can save your sight.

The condition is the buildup of fluid pressure within the eye known as glaucoma. One doctor whose patients are predominantly businessmen says that two out of every 100 executives he examines have it without knowing it. There are, in fact, an estimated 3 million undetected glaucoma cases in the U.S. today.

What's more, a painless and accurate check on this condition takes only five minutes. The old-fashioned method of detection, still adequate for people in their 20s and 30s, was for the doctor to press his thumb gently against the closed eye. Now, though, a good eye specialist will put a drop of local anesthetic in your eyes and place a small scale called a tonometer against the eyeball, to gauge the pressure.

• • •

As you check your summer home before closing it up for the year, make sure that you do not overlook the one thing that can cost you money: property which you may think is insured but which really is not.

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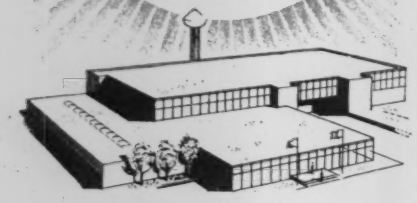

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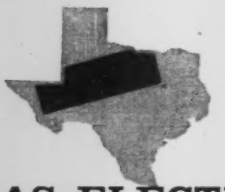

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Have you, for instance, added furniture, a washing machine or similar equipment since you bought your original insurance policy? If you have separate coverage for your summer place, be sure the value listed for the house and those new contents is still accurate. Equally important, if the contents of your summer home are merely included in your regular home fire/theft insurance—as part of the 10% of value you can keep off-premises—make sure that you do not need additional coverage.

Another danger spot in closing summer homes: if you have one of those "all-purpose" package policies now so popular, be doubly certain you drain the plumbing system thoroughly before going back to town. Unlike some older policies, these "all-purpose" contracts have a clause that relieves the company of paying damages when pipes freeze or burst—a common occurrence in many summer homes when the forgetful owner overlooks turning off the water.

• • •

It is father who pays the bill, but as any father of a college freshman can tell you, when it comes to clothes he often does it against a background of sullen silence or cries of "But everyone else has one."

So, how much does everyone else's father have to pay? Generally, determining the price of a male freshman outfit is far easier than estimating the cost of a female wardrobe. If the sky is not the limit, the women's shops imply, then it ought to be, and the range for girls—depending on the family's income and indulgence—runs between $200 to $1,000 for the first year (but, mercifully, a much smaller amount for the next three).

For men—though here, too, rock-bottom for the average student is $200—tops is about $400. "Musts" in just about any male wardrobe include the ubiquitous duffel coat, and at least a half dozen sweaters.

And for girls? The only thing they are sure they will need this year is a small leaf pin that costs $10 at most, and is considered an absolute necessity in any feminine wardrobe. As for the $190 to $990 worth of clothes to put it on, those run the gamut from trench coat to ball gown —and that gamut, as any father also knows, is wondrous long. —P.H.D.

Don't blindfold him!

THE MAN in this picture is a cancer research scientist. The device he is using looks like something out of science-fiction—but actually, it's an electron microscope. It shows him the sub-microscopic detail of a cancer cell —magnified 100,000 times. *The cost of one electron microscope is $35,000.*

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Write for a complete listing of NATIONALEASE affiliates showing additional affiliates supplying leasing service throughout the rest of the United States and Canada.

Managing Your Manpower

LAWRENCE STESSIN

ALMOST any hour in any of seventeen plants of the International Harvester Co. clusters of employees can be seen standing around. They are not working. They are arguing with all the gestures and vocal tensions of men in conflict. In other companies such inattention to duty by the workforce would be a signal for action—a peremptory order to get back on the job, a threat of discipline if the boondoggling were repeated. At IH, in contrast, these scenes only bring smiles to management faces.

These forums on the factory floor are part of a planned program to break a bottleneck which has virtually paralyzed the company's labor relations. Root of the trouble was the grievance procedure—machinery designed to settle employee complaints with justice and dispatch. At Harvester the grievance process, in the words of William J. Reilly, manager of labor relations, "turned out to be a monster." At last year's count the company had in its files a mountainous backlog of 100,000 employee "beefs." Thirty-six thousand of these complaints were appealed to arbitration—a virtual guaranteed annual wage for every qualified arbitrator in the country. Those grievances which finally ground through the paperwork mill took two years or more.

"Do it now"

Reilly came up with the solution. He proposed that the second step in the grievance procedure, where the complaint is put down in writing, should be virtually eliminated.

"Do it now," argued Reilly. "Settle grievances on the first level—the foreman level. If an employee has something coming he should get it *now*. If he has nothing coming he should be told *now*."

The union asked the inevitable question: "What if the foreman and the steward can't settle it right there?"

"Ninety-five percent of our misunderstandings," Reilly replied, "in-

» *Bogged down in processing too many grievances? International Harvester found just the way to solve that problem.*

» *Urged on by unions, the National Labor Relations Board is taking a new look at some of its old rulings.*

volve facts. If the steward and the foreman can't get the facts, let's bring anybody *out on the floor* who is needed to get them—the committeeman, the superintendent, the industrial relations people, even the works manager."

This was the crux of the Reilly formula. But selling it to a militant union, to old-time foremen, to 47,000 employees who apparently were grievance happy was something else.

Reilly and union head Art Shy decided to set out on a campaign of industrial evangelism—to convert local union men, supervisors and employees to the new look. For six months they took to the road, held meetings with personnel and even walked the mill floors to show how the new system should work. At the Memphis plant Reilly came upon a typical hassle. A worker claimed that he was assigned to the wrong classification. The foreman, pencil in hand, multiple forms in front of him, was carefully wording the complaint. The steward was helping in composing the prose.

"Why not call in Wage and Salary Administration and see what they have to say about this?" Reilly suggested. "They will be getting the written grievance anyway. Maybe they have an answer right now."

Forty minutes later the meeting was over, the issue settled.

Last month Harvester officials were able to assess some of the results of the "settle it now" program. At its Canton, Ohio plant written grievances dropped from 421 in 1959 to only ten since the new program was started at the beginning of this year. In Memphis there was a 95% improvement, and in Emeryville (Calif.) not a single written complaint was processed. And so it went—some 20,000 grievances settled just where they started, on the factory floor.

New Hope for Unions

The spirit of better times ahead which pervaded the recent meeting of the AFL-CIO Council may have been caused by three men who were not there. They are the new majority of the National Labor Relations Board, two recent Kennedy appointments and one holdover. The new line-up gives the Democrats a 3-2 edge in the administration of the Taft-Hartley Law and the still incubating Landrum-Griffin Act.

For the eight years of the Eisenhower Administration, labor leaders complained that the NLRB was "employer oriented" and that the agency had set up a heavy bureaucratic roadblock against traditional union goals. Now unions are preparing cases which will force the Board to review and perhaps upset those policies which they claim have hampered organizational and bargaining efforts. However, labor lawyers are not banking on the new Board to reverse previous rulings just because unions enjoy a friendlier climate in Washington.

Says Ben Wyle, counsel for the Textile Workers Union, who recently argued the first case before the new

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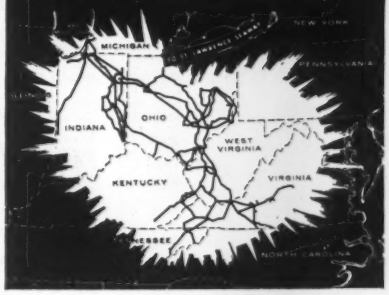

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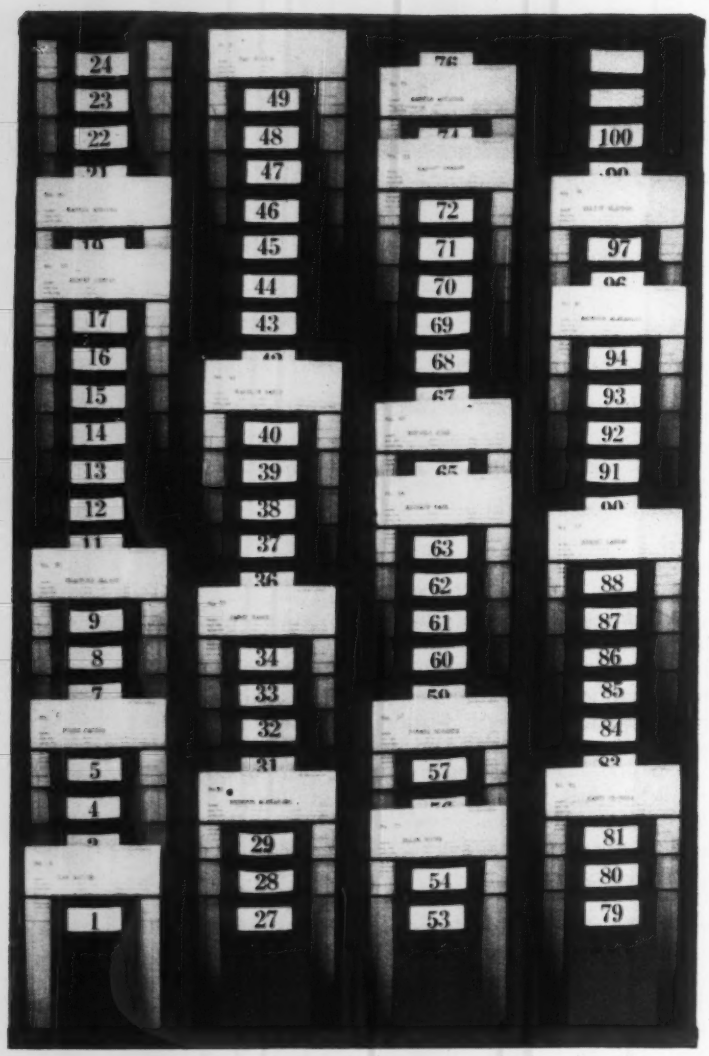

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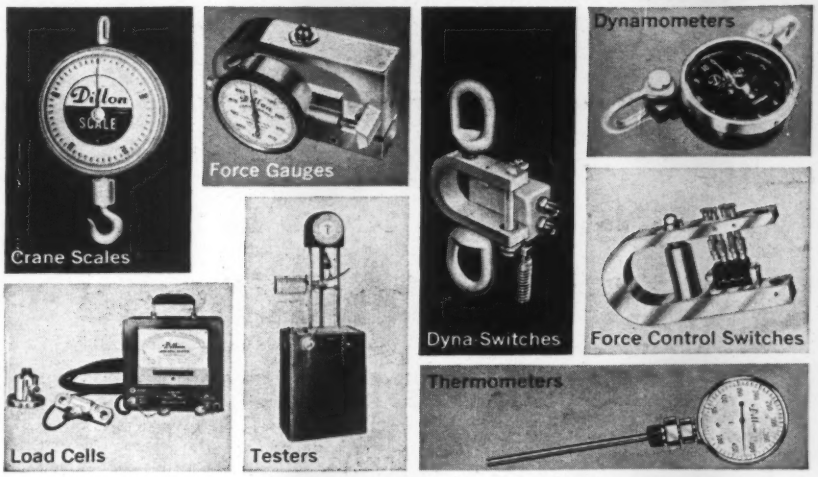
grouping: "The fact that in its last nine decisions dealing with labor the Supreme Court reversed the rulings of the old NLRB is proof that the Government was not administering the Taft-Hartley Act fairly. We now have a Board that is a willing listener."

The new Board has already taken some steps to deal with key issues. The first is a procedural one involving decentralization of authority. Regional directors of the Board have been given power to finalize union election cases. Until now the national board had the final say, with the result that some 3,000 decisions were backlogged when the new team took over. This speed-up is also welcomed by employers who would rather have a union vote done and over with one way or another. Delays mean campaigning, bickering and charges of discrimination, with attendant lowering of morale and production.

High on the critical list of policy affirmation or reversal are these issues due for testing in the coming months:

- *Union Security.* The auto workers union will ask the Board to set up a new pattern on the problem of the "agency shop." In states where right-to-work laws are in effect, the UAW had agreements with employers whereby non-union members were required to pay "fees" to the union for services rendered. The old Board declared these to be improper, and the UAW wants the Board to take another look.
- *Employer Tactics.* Unions feel that the Board has been too loose in its interpretation of "free speech" by employers faced with organizing drives. The old Board had declared as "legal" employer statements that the plant "will close down or move" if a union wins. Appeals by southern employers to racial prejudices (distribution of photos showing Negro union officials shaking hands with white workers) have likewise been ruled as privileged. Unions also want the Board to clamp down on anti-union campaigns by "outside organizations" like local chambers of commerce by making them a party to an unfair labor practice.
- *Bargaining.* One of the most sensitive issues which the new Board will tackle is "Boulwarism," a negotiating strategy originated by General Electric Co. The technique is for a company to make a "fair and firm"



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offer to the union and declare it first and final. Unions say that this is not collective bargaining.

• *Small Companies.* The Board had shied away from handling the union-management problems of small companies. "Too trivial" was the official line. In two recent decisions the Board took jurisdiction over disputes in firms with less than a dozen employees. Unions see small companies as legitimate areas for organization but were unable to get protection of the Taft-Hartley Act by the old Board's *de minimus* policy.

How To Do It:

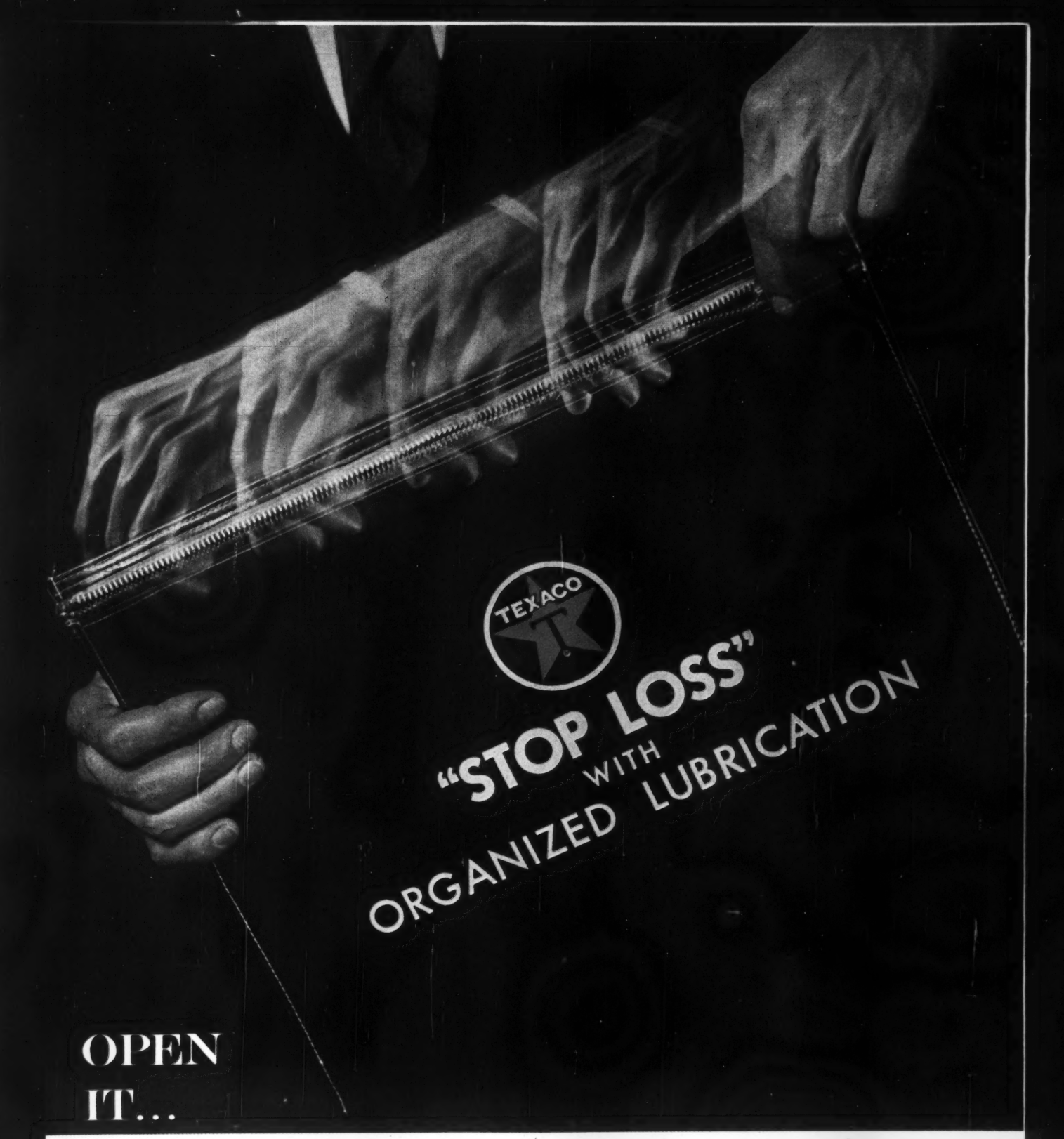
Promoting from within. To show that its policy of promotion from within is no idle boast, Continental Can Co. issues a quarterly magazine which features men who climbed up the ladder. The publication is called, of course, *Promotions From Within* and runs a photo of each of the "promotees" together with data on new position, previous position, first position, followed by date of hiring.

Moving plants. When the auto workers union put up a trial balloon and suggested that the forthcoming Ford Motor Co. contract have a clause which would prohibit the company from locating new plant sites or moving old facilities to new areas without consultation of labor, Malcolm Denise, Ford vice president of labor relations, said, "No. Only management is or can be qualified to make such decisions."

Job boredom. There is little of it at Ciba Pharmaceutical Products. Packaging drugs, of course, can be a dull, repetitive and dreary chore. So workers are allowed to change jobs every two hours. Decisions on job hopping are made by employees themselves. During rest periods employees manufacture their own diversions, the most popular of which is skipping rope.

Employee incentives. The "green stamp" of supermarket fame has been adopted to industrial use by Manpower, Inc. Employees who come up with sales leads or ways to reduce costs get scrip. Accumulated points entitle employees to household gifts.

Living with unions. Man bit dog when management at the Pittsburgh Plate Glass Co. devoted a full page in its employee magazine to praise of Upholsterer's International Union for its "cooperative spirit." END



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Inco research tests metals for 100-mile-an-hour ship

Scientists at Inco's marine research laboratory are now carrying on metals research to help open up a new era in sea travel. They're testing metals for use in a new kind of sea-going vehicle – the hydrofoil ship – which may some day take you to Europe in less than two days.

A revolutionary concept in ship design, the hydrofoil ship will skim over the tops of the waves, lifted aloft by a set of underwater wings. One now under development is planned to travel at 100 miles an hour!

The success of the new ship will depend on using the right metals in the underwater wings – metals which will withstand the corrosive effect of the coursing brine, the stresses and strains from the load of the ship, and the cavitation erosion from the seething turbulence.

Ship designers turned to Inco – The International Nickel Company – for answers to these metal problems. Drawing upon 50 years of corrosion research, and using new techniques developed specifically for hydrofoil problems, Inco scientists are now securing data to determine which metals will best do the job. It's an example of how Inco is *exploring new ways for Nickel to serve you.*

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International Markets

ALEXANDER O. STANLEY

- *Trademark piracy, on the increase in foreign markets, poses a growing threat to hundreds of U.S. manufacturers.*
- *Undaunted by awesome economic problems, Latin America's new common market is preparing for its debut.*

HOW SAFE are your company's trademarks abroad? If you have not checked lately, now is a good time to do so. As many a U.S. manufacturer has learned to his sorrow in recent months, trademark piracy overseas is no minor peril.

No matter how solidly a company is protected by registry and prior usage here at home, it can be wide open to trademark piracy in many foreign countries. In fact, a pirate firm abroad in a nation where an American corporation has failed to register may be able to take the precious trademark as its own, register it, and reap the benefits of the American product's reputation with relative impunity. Worse still, after copying or adapting the design, trademark and even trade name, the pirate firm can then export to other foreign markets as a competitor.

Unfortunately, there is no simple way to protect a company against these practices. Laws governing the different facets of industrial property protection — patents, trade names, trademarks, copyrights, know-how— vary from country to country. Thus, piracy can take a variety of forms.

Forms of piracy

Some pirates jump ahead of unwary or uninformed U.S. firms, register the U.S. trademark or trade name themselves, and then force a quit-claim payoff.

Others may register American generic terms (*e.g.*, chocolate, bearings, electronic, hi-fi music, car-wash) as private trademarks or names. This, of course, makes local marketing difficult for the U.S. firm whose products contain such elements.

Favorite hunting spots for the foreign pirates are U.S. consumer magazines and trade papers, which they scan for ads and publicity releases on new products and processes. This type of "leak," obviously, is quite impossible to stop. The result? "In a single year," says one international trademark authority, "an American firm with extensive overseas operations may have to cope with hundreds of infringements."

Moreover, trademark piracy is notoriously hard to fight. Legal protests and infringement action are costly, time consuming, and often ineffective, as even the Industrial Property Rights Section of the U.S. Department of Commerce admits.

To all this there is just one answer. That is constant scrutiny of international regulations, registration of industrial rights where necessary, and constant vigilance in all key markets. The details of setting up procedures and controls, of course, are best handled by legal specialists. Equally important, however, management must have a clear grasp of the problem.

The facts about trademark registration are fairly simple. First off, it should be realized that not all types of products have to be registered in all foreign markets. For those that do, registering a single trademark in a single country will cost, on the average, about $125. Oddly enough, the smaller the country, the higher the fee generally runs.

Usually, registration in five to six key countries will suffice, depending on where the competition is concentrated. Once registered, the mark ordinarily must be used and policed. If company plans are uncertain or trade complications set in, token shipments will sometimes suffice to keep the registry in force.

In most cases, registration will protect a company for a period of ten to twenty years, and renewal privileges are usually provided. As far as possible, the responsibility for policing the trademarks should be centralized. However, overseas representatives can and should keep their eyes open for infringements.

Patent search

As every experienced marketer knows, it takes a good deal of design know-how to create a distinctive and effective trademark. Marketing abroad adds further complications. And these are not all so apparent, as, for example, the need to leave room on labels or name plates for registry reference. As a result, many companies believe in hiring trademark people with solid experience in international practice.

While a company is checking its trademark position, wise executives will do well to take a hard look at patents as well. Since patents are valid only in the countries that issue them, they are often a worse headache to police than trademarks.

Even if patents are registered in Japan and Western Europe, moreover, there may be a big gap in their protection behind the Iron Curtain.

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To plug this gap, some companies may have to file for Soviet patents or stop patent infringement at the source in other countries. The U.S. Patent Office reports that this may be a company's only hope of protection against copies of its products being imported into Russia and sold there in state-owned stores or factories.

To be sure, Soviet registration has its risks. It gives the Russians access to American ideas, and a company can only hope that if the Russians do decide to use its patent, they will pay the royalty. To complicate matters, a company may—depending on product line—need U.S. Government approval.

The Latin Common Market

Latest in common market mergers is LAFTA, the Latin American Free Trade Association. The seven nations involved (Argentina, Brazil, Chile, Peru, Paraguay, Uruguay and Mexico) are already negotiating an agreement to reduce and eventually eliminate tariffs on each other's goods and to push toward economic integration. Spread out over a twelve-year period, the tariff cuts will at first chiefly affect manufactured goods. Once the program is in full swing (it is scheduled to get under way by year-end), that timetable may be speeded up.

Other Latin American countries, notably Colombia, Ecuador and Venezuela, are not likely to stay outside for long. As it is, LAFTA's seven charter members account for no less than two thirds of Latin America's total output of goods and services (which topped $63 billion in the year ended June 30).

Latin America, of course, is having its economic troubles just now. The biggest problem is soaring population growth, which is outstripping food production as well as housing, schools and social reform. Just in the past year, $500 million worth of food had to be imported from the U.S.

Meanwhile, despite a 10% gain in output last year, Latin American industry is still a long way from closing the huge gap between production and needs. Crude steel production, expected to hit 10 million tons by 1965, will still be falling a third short of demand. The chemical industry's output, despite a larger volume and variety of products, will still have to be supplemented to the tune of some $750 million annually for years to

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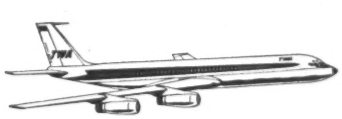

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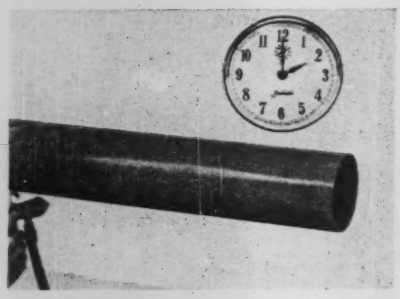

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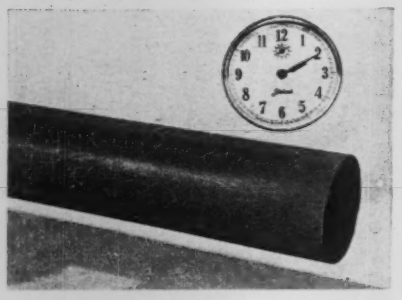

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come. Newsprint production, with the highest growth rate in industry statistics last year, still trails consumption needs by 75%.

It takes a lot of coffee, sugar, rice, wood and other tropical products to pay for the relatively expensive industry-supply imports, to say nothing of the tab for foodstuffs. And the problem is compounded by supply gluts, sagging commodity prices and the prospect of shrinking markets overseas. This last worry is sharpened by the European Economic Community's plan to impose preferential tariffs on various tropical products for the benefit of "associated" countries—mostly the former French colonies in Africa.

How well LAFTA's plans will stand up under these stresses is by no means certain. More capital would help, but foreign investors—U.S. and other—are still inclined to be wary.

Significantly, Argentina has just become the fourth LAFTA member (the others are Chile, Paraguay and Peru) to ratify an investment guaranty agreement with the U.S. Administered by the U.S. International Cooperation Administration through the Export-Import Bank, the guaranty will cover new U.S. private investments of capital goods, services, patents and loans. The insurance premium charged to the U.S. investor is one half of 1% a year on the dollar amount of the guarantee, which provides that capital invested and income from local operations will remain convertible into dollars for repatriation.

Central American Push

Meanwhile, a smaller Central American market combine to the north has been busy working out plans to attract foreign capital to the region. The Central American Economic Integration is pushing ahead with R&D projects as well as economic studies in the field. Already, the Central American Research Institute headquartered in Guatemala City has undertaken studies for both governmental and private clients. Among the projects for which it has produced detailed plans are a $300,000 fertilizer plant, a 20,000-ton sugar refinery, a versatile chlorine plant, and —in the product field—a protein-fortified, low-cost "hot dog." So far, the Institute's projects point the way to $10 million worth of industrial investment opportunities. END

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information about Little Rock for industrial site seekers

More people with more buying power are located within a 300 to 400 mile radius of Little Rock than within the same area of other major Southwestern cities. Not only is it in a good market position, but it has excellent service industry facilities and transportation, a plentiful supply of workers, and a most attractive wage level.

A recent law enacted by the Arkansas legislature is proving of interest to new industry. It enables counties and municipalities to form compacts for industrial financing, and authorizes them to issue first lien obligations up to 75% of the appraised value of the lands, buildings, and heavy machinery to be financed, and second lien obligations for any remaining necessary financing.

The Rock Island has many choice industrial sites available in Little Rock and other Arkansas cities. If the following information on Little Rock interests you, get in touch with us for more specific details. We'll work with you in strictest confidence.

LABOR: Skilled stable labor force of 75,000 available in Pulaski County; increase in employment of 30% in 10 years (10% in 2 years); average education 8.7 years.

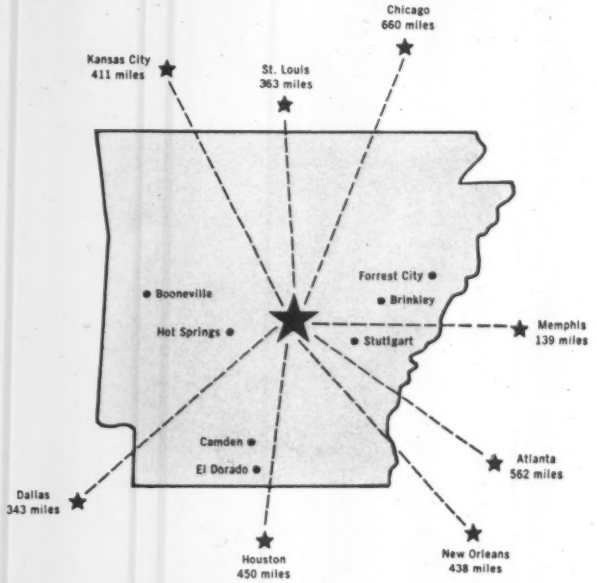
POWER: 242,000 KW per day of electrical power; 4½ trillion cu. ft. of natural gas in reserve storage.

TRANSPORTATION: The Rock Island and 2 other railroads; 32 interstate truck lines; 27 local terminals; 5 airlines; 8 bus lines.

RAW MATERIALS: Uncommitted timber, soil, and water nearby; vast supplies of minerals; parts and sub-assembly manufacturers plentiful; reliable sources with reasonable delivery costs.

HOUSING: 2,704 new housing starts in last three years ('57-'59); 45 attractive residential subdivisions, 40 of which are relatively new, within a 10 mile radius of downtown; rentals average $14 per room per month unfurnished; Little Rock's urban development program is recognized as one of the three most aggressive and outstanding in the nation, due, in large part, to support by private enterprise.

THE COMMUNITY: Approximately 60 elementary and high schools with an average of 28 students per classroom; 8 colleges and business schools; approximately 35 public parks and community centers; 36 hospitals and rest homes staffed by 375 doctors; total tax picture in Little Rock and Arkansas is competitive with other states. (Only one neighboring state shows a more favorable total tax liability for federal, state, and local taxes for high fixed asset firms.)



COMMERCIAL SERVICES: 96 classifications of industry with 255 listed corporations, including tool and die operations; 4 local contractors are experienced in industrial construction; exceptionally wide diversification of commercial activity with modern, attractive shopping district and several shopping centers.

CLIMATE: Average mean temperature is 62.4°F; average monthly rainfall 3.94" (47.28" average annual rainfall).

INFORMATIVE BROCHURE describes 12 key markets in Rock Island Country. This fact-packed "Rock Island Country" booklet, as well as further details on industrial sites in Little Rock, may be obtained by writing on your company letterhead to P. J. Schmidt, Manager, Industrial Development, Department 180, Rock Island Lines, La Salle Station, Chicago 5. The brochure and supplementary information will be mailed in a plain envelope marked "Confidential."

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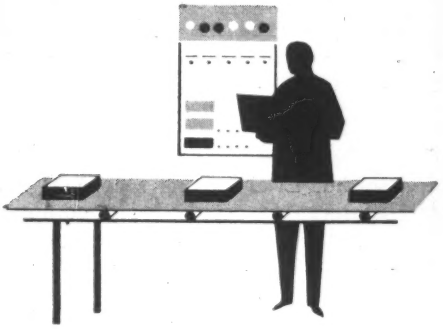


Inside Industry

- *Almost forgotten after the first flare of publicity, methane gas has been quietly preparing for a key industrial role.*
- *New refining processes and new U.S. supplies mean lower prices for the growing number of beryllium users.*

QUIETLY, but more swiftly than most businessmen are aware, a familiar fuel in an unfamiliar form has been bringing to birth a great new industry. Natural gas in liquid form, transported over the seas by giant tankers promises not only a new source of fuel for industry but a host of business opportunities as well.

Key to the industry's future growth are the vast untapped resources of natural gas in Saudi Arabia, Alaska and the Sahara Desert. With solution in sight to the technological problems of liquefaction, transportation and storage, businessmen in places as far removed as London and Tokyo are looking forward to using them.

Great Britain, for example, urgently needs new fuel sources to supplement the oil her tankers bring in. And booming Japan is more than ever dependent on imported fuels to power her thriving industrial plants. Accordingly, a British-American combine is building two big tankers to haul liquid natural gas (at – 259°F) from a liquefaction plant in Oran, Algeria to London. And in Tokyo, a Japanese group is planning to ship LNG to Japan from Arabia.

For U.S. industry, all this is of more than academic interest. Since most of the technology involved is of U.S. origin, the patent owners—companies like Constock-Pritchard Liquefaction Corp., Air Products Inc. and Dresser Industries—will profit from fat patent license fees. And American companies will also have the inside track on supplying much of the liquefaction equipment and even building the plants.

More than that, though, advances in LNG technology may soon be bringing the chilly liquid to gas-short areas here. True, at present the U.S. with its massive grid of interconnecting gas pipelines is no market for LNG tankers. But as U.S. gas reserves eventually shrink and pipeline construction costs continue to climb, the day is coming closer when tankers may be bringing in huge volumes of LNG the year around.

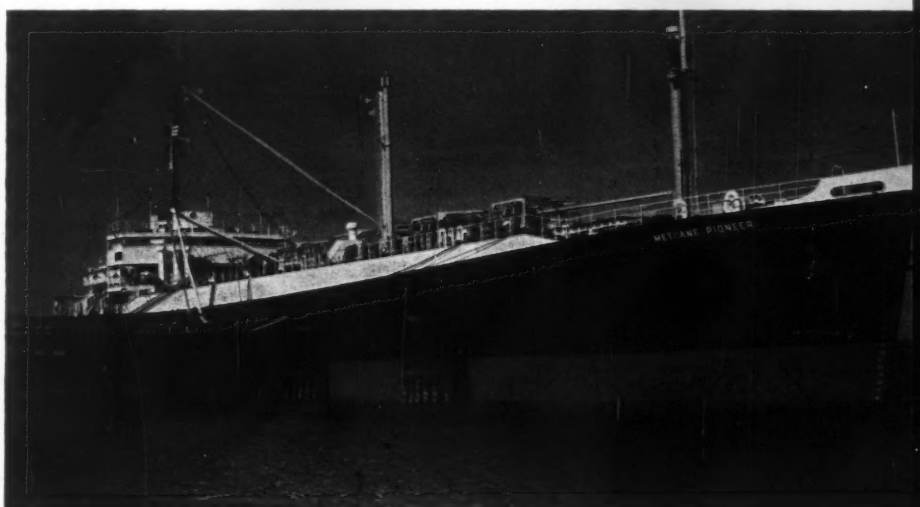
New England shortage

Even today the U.S. pipeline network is falling short of supplying natural gas needs in New England, which often suffers shortages in winter. To solve this problem, New England gas utilities are currently studying a system that would bring in excess gas in summer, liquefy it, and store it as a reserve against peak needs during bitterly cold winter days. In an emergency, such a storage system could also use LNG brought in by tanker.

Technical know-how for the system is readily available. In fact, one system was constructed in Cleveland during World War II. But on one hot summer day a storage tank, shoddily constructed to wartime standards, burst. The gasifying LNG caught fire, and a large area of downtown Cleveland was ravaged. For years, the disaster put a curse on liquefaction plants as far as U.S. public officials were concerned.

Actually, however, there is no real question about the safety of properly constructed LNG storage facilities. Since 1947 a peak-shaving LNG plant built by Texas' Dresser Industries has been operating safely and efficiently outside Moscow.

Right now, the main preoccupation of LNG technologists is cost. One bright hope for reducing storage costs is the development of giant prestressed concrete tanks, an approach the American Gas Association is now working on with Preload Co. of New York City. "Over the 100,000-barrel size," declares Preload's President



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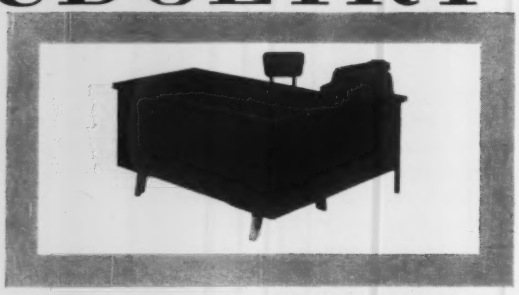

*Budgetry is the practice of wisely correlating spending to a budget limit. The trick is to get price without sacrificing quality. H-O-N shipments, month after month, demonstrate that business is outfitting its offices with the dependable quality and good appearance of H-O-N furniture and equipment. The reason, we believe, is that H-O-N furniture is compatible with the trend in today's purchasing practices. The H-O-N CO., MUSCATINE, IOWA

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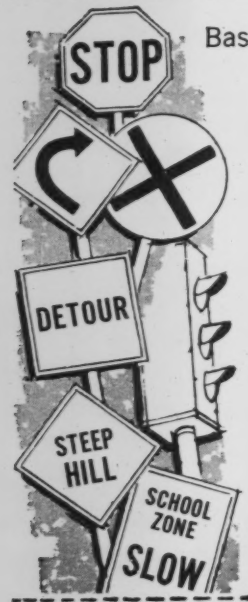

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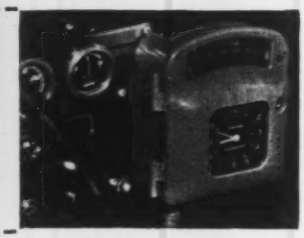

Leon Closner, "a concrete tank would cost only half the price of a metal tank the same size. And prestressed concrete is ideal for LNG storage because it gets stronger at low temperatures."

Once the storage problems are solved, LNG experts speculate, still another new marketing opportunity may be at hand. The key to this opportunity lies in the gasification LNG must undergo before it is piped to the user. During gasification, the LNG absorbs large amounts of heat. But this process generates a valuable and highly salable by-product: cold. Near the storage tanks, the LNG would be run through a refrigeration plant—an ideal setup for meat packers, food processors, and similar customers.

A visionary scheme? Perhaps. But one of those prospective customers, a leading Chicago meatpacking firm, recently bought an interest in a domestic natural gas producer with just that possibility in mind.

Beryllium Build-Up

That versatile metal, beryllium, is again in the spotlight, and out to do as many turns as an old-time vaudeville performer on the Keith circuit. Beryllia, the oxide of the metal, is already used in the construction of nuclear reactors. Yet the market for nuclear reactors, high-priced as it is, is nowhere near as broad as the one that is putting beryllia to a brand-new use.

Attracted by its unusual properties —high electrical resistance combined with excellent heat conductivity—the manufacturers of miniaturized electrical and electronic equipment are using the oxide as a "heat-sink" to suck out destructive heat. In fact, the National Beryllia Corp. is already marketing beryllia bases for transistors.

In addition, National Beryllia is working under a twelve-month R&D contract from the U.S. Air Force to make fibers of beryllia. "We already know," reports R&D Manager Philip Hessenger, "that the fibers have a tensile strength of 2 million pounds a square inch. That is four or five times as strong as glass fibers."

Nor is strength, he says, the only virtue of the new fibers. They will melt only at a temperature thousands of degrees higher than that which affects even the most heat-resistant glass fiber. For this reason, if large-scale production becomes a reality, they may well

replace glass fibers in the reinforced plastic nose cones on U.S. missiles.

The space age has already been a tremendous booster for beryllium itself. It has the highest strength-to-weight ratio of any metal known, which makes it a natural for use in anything that flies.

Yet despite its versatility, there are only a few fabricators scattered about the U.S. who know how to handle beryllium. For one thing, the metal is toxic when finely ground. Some people are even allergic to it in solid form. For another, it is brittle—although researchers have succeeded in making it fifty times more ductile by purification.

Another big disadvantage of this flyweight metal is that it is expensive. In vacuum-cast ingot form, beryllium costs $50 a pound. By the time it has been machined into a part, the price per pound may triple.

Prices, though, are due to fall. The U.S., long dependent on beryllium ore that is handpicked by natives in South Africa, now has two inexpensive domestic sources available.

A $1 million operation, joint venture of Beryllium Corp. and United Technical Industries, will refine low-grade ore into 97% pure beryllium oxide by a chemical process that UTI has developed. A rival refinery backed by Cleveland's Brush Beryllium Co. in Utah will concentrate the ore by flotation.

"The development of two successful methods for utilizing domestic ore, after many years of effort, doesn't mean that the U.S. will stop importing foreign ore," says Brush Beryllium's President George S. Mikhalapov. "Present primary metal plants, in fact, are designed to process South African ore, and will use U.S. ore as additional metal and oxide capacity is needed. Of course, if the foreign ore is cut off for any reason, the plants could be converted to handle domestic ore exclusively."

This, and the entry of a new supplier, Lithium Corp. of America's subsidiary, Beryllium Metals and Chemical Corp., is good news for consumers of beryllium and its precious oxide. For one thing, what has kept prices high during the past three years has been the chronic shortage of the metal. Now, just as new uses for both beryllium and beryllia are being discovered, it looks as if there will be enough to meet industry's needs for many years to come. —M.M.

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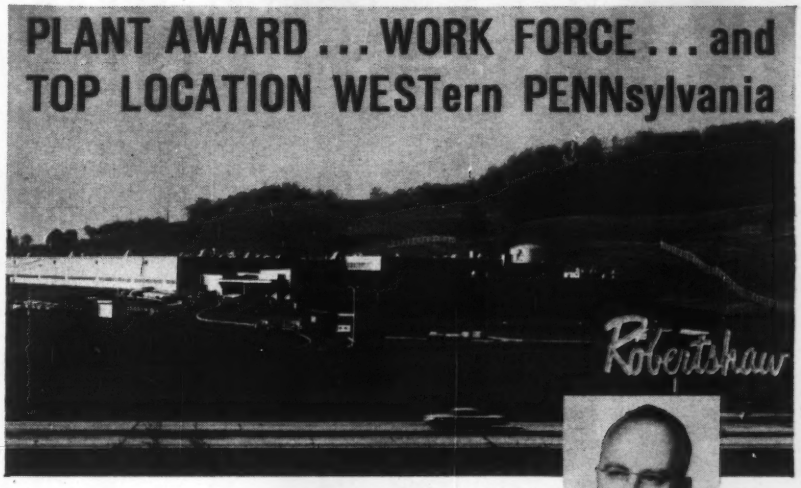

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"It takes skilled hands to work on controls," says Frank H. Post, vice president, Robertshaw-Fulton Controls Co. "We can tap all kinds of skills in this area, so we upgrade our output, boost volume, operate at lower costs. Here is a prime location for our three facilities—now under this one superb roof."

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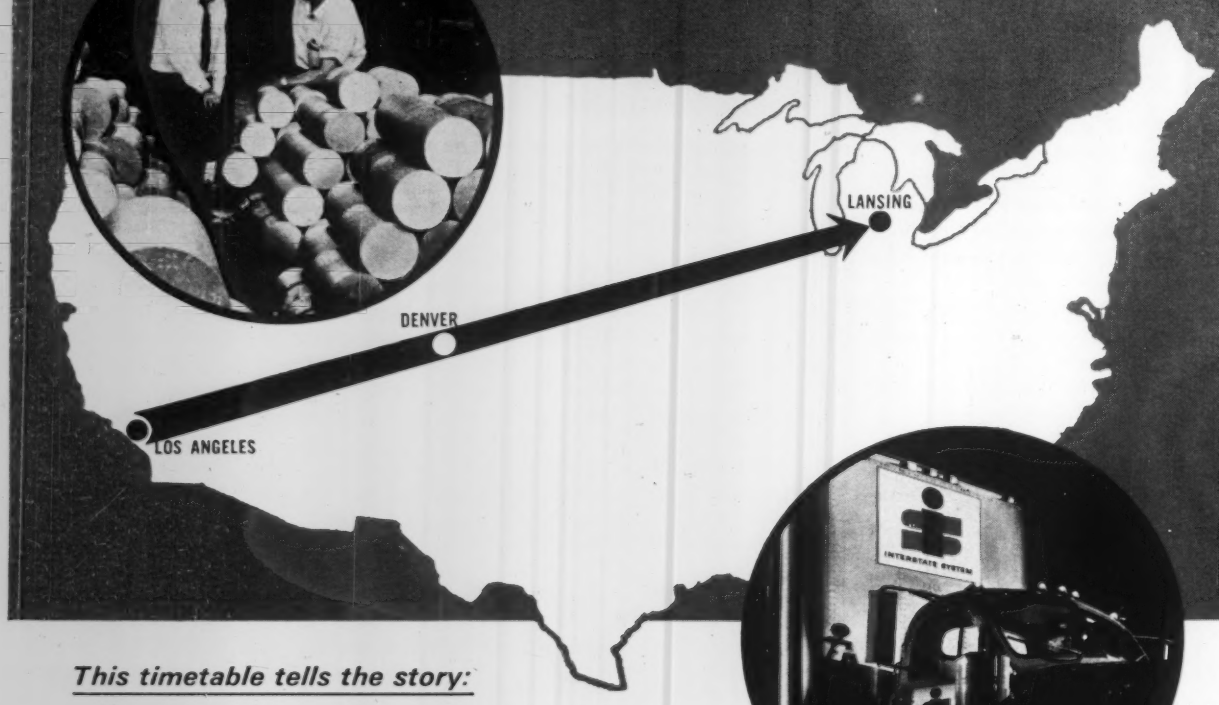

This timetable tells the story:

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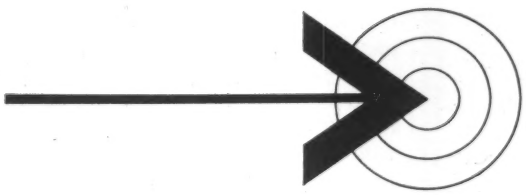

Sales & Distribution

» *With a boom in credit buying, the bad risk gets riskier every year.*

» *One solution: a "dead-beat detector" to spot potential delinquents in advance.*

A CRITIC of credit buying once remarked that there was only one reason elephants are hard to sell: none have ever been offered on easy credit terms. Yet despite those who bewail the high level of consumer credit, there is little doubt that it is one of the major flywheels in keeping our sales-based economy spinning, and a factor that will become even more important over the next few years.

Today, with their total spending running at an annual rate of $330 billion, consumers owe some $54 billion. If the projections hold true, that sum will be just doubled by 1970, since, paradoxically, as incomes rise, people borrow more.

But has the evaluation of credit risks kept pace with the rise in consumer credit outstanding? Despite the increased services of credit bureaus, the answer is "No." There are still many businessmen who make only the most perfunctory checks, preferring to trust their intuition when making a decision on a credit applicant. Even the big department stores do not succeed in weeding out as many of the bad risks as they would like.

In the small-loan business, which accounts for $4.2 billion of all U.S. consumer debt outstanding, the problem is especially acute. Since interest rates are fixed by state legislatures, there is no way a small-loan company can raise its charges to compensate for higher operating costs. Yet there can be no doubt that accurately evaluating their 10 million new customers a year is one of the most important jobs of the nation's consumer finance companies.

Antiquated and inadequate

The methods they use, however, are in most cases a holdover from the days of "Honest Abe" Lincoln. Traditionally, when it comes to making a final judgment on loan applicants, managers fly pretty much by the seat of their pants. "And this," notes President Lawrence M. Curtiss of the American Investment Co., fourth largest small-loan company in the U.S., "is a very expensive way to teach credit rating. Even one bad decision out of 100 takes a terrific toll in losses, expenses and employee time."

The huge size of that toll becomes clear from a look at American Investment's balance sheet. Though the company turned a net profit last year of $7.1 million on some $413.3 million loaned out, half of all its delinquent accounts had to be charged off as bad debts. They were either completely uncollectible or the cost of collecting them exceeded the balance owed.

Charge-offs last year, in fact, amounted to $7 million, a sum nearly equal to profits and the company's third largest expense item, one which was exceeded only by payroll and interest. In addition, poor risks added to direct operating costs, for American Investment figured that each delinquent debtor cost the company from $85 to $100 for extra mailing, legal and collection expenses.

CHARGE-OFFS, says American Investment's Curtiss, cut profits in half.

Reviewing these figures, Curtiss decided that what he needed was a "dead-beat detector." He found it in an electronic computer that he believes is superior to the present credit-scoring systems for accuracy and speed, at the same time disproves a lot of the "folklore" on which credit managers base their decisions.

Data on its debtors

To get a clear picture of the good credit risk—and the bad—American Investment fed the statistics on 40,000 accounts into the giant brain. In all, 26 different bits of data on each debtor were processed. Such facts as age, marital status, job record, weekly income, type of home and length of time in the same home were scored and weighed against one another to spot the differences between good and bad accounts.

Even more important, American Investment found it could pinpoint the score level below which it is unprofitable to handle customers. Both good and bad accounts were found at all score levels, for not all poor risks are dead beats nor are all the seemingly good risks as reliable as they appear to be. But the cost of handling the poor risks in the low-score group more than offset the profit to be made from the few good customers in this group. It

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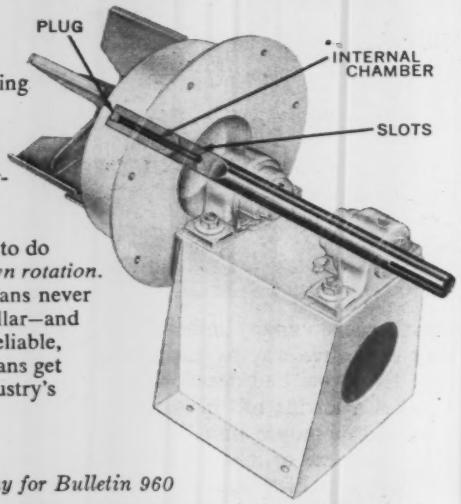
You're looking at an Air-Cooled Shaft used in Thermal-Aire Fans. Featuring exclusive chamber-and-slot design, it keeps bearings cool . . . protects them against excessive heat, over-expansion and burn-out. It requires no water, slingers or other circulatory systems to do the cooling job . . . *just its own rotation.* That's why Thermal-Aire Fans never get hot under the bearing collar—and one of many reasons why reliable, dependable Thermal-Aire Fans get specified for so many of industry's critical, high-temperature air-moving jobs.



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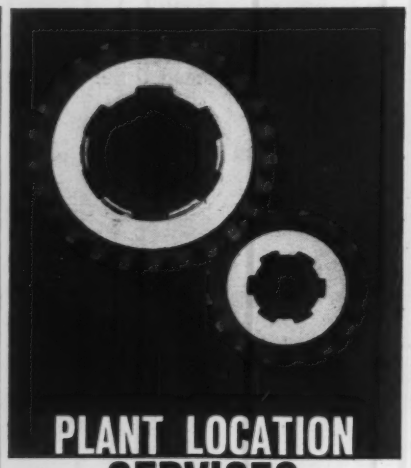

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SERVING THE NORTHERN PLAINS ☐ GENERAL OFFICES: OMAHA, NEBRASKA

was bad business, American Investment decided, to bet on them.

A point-by-point comparison of good accounts (those that are never more than one month delinquent) with bad (those that had made no payments for at least ninety days) presented a clear image of the responsible debtor. Among his features:

- He is, on the average, some four years older than the delinquent debtor.
- He has generally lived three years longer in his present home.
- He is much more likely to be a home owner.

The computer also revealed that although the married loan applicant is usually a better risk, the man with fewer dependents is generally the more reliable. In addition, telephone service in the home proved to be 31% more prevalent among responsible borrowers.

This last result merely confirmed an old rule of thumb, for a phone number on a loan application has long been an important sign of solvency. Not only is the telephone a direct line to the hard-to-catch delinquent debtor, but the firm collection policy of the telephone company also sloughs off dead beats.

Myths vs. facts

Not all of the guidelines commonly used to gauge risks proved so reliable when checked out by the electronic brain. In fact, says Curtiss, many credit managers will have to revise some of their traditional ideas. In the past, for instance, they have frowned on applicants who showed a big ratio of outstanding debts to income. The computer, however, revealed that those with heavy debt loads are just as likely to be good customers as they are to be dead beats.

Too, credit managers have long been wary of people in certain jobs. Waitresses were apt to be given short shrift, as were itinerant construction workers, bartenders and self-employed painters. But the computer analysis found them just as reliable as anyone else, thus upsetting another preconception which had long been held by credit men.

How, then, do you separate the wolves from the lambs? By the time the computer had finished its complex calculations, it turned out that only ten of the 26 pieces of personal and financial data it digested from each account were really critical. What these ten are American Investment is

keeping to itself. It sees no sense in letting competitors in on a secret that could add millions to its profits. Nor does it want to scare off potential customers who might score low on one or more items but still would qualify for a loan.

Curtiss does say, though, that loan interviewers in American Investment's 400 offices around the U.S. are already using the ten criteria to make 30-second checks on each of the 65,000 loan applications made each month. They score for age (worth, say, two points a year), present job time (possibly five points a year), possession of a telephone (150 points), and so on. If the total score falls below the minimum level, the applicant is immediately turned away and no further investigation—a costly affair at best—is necessary.

On the other hand, scoring above the minimum level does not automatically put the cash in the borrower's pocket either. The system is aimed only at eliminating the poor risks (about 5% of all who apply for loans). The decision to grant a loan to the eligible 95% is still in the hands of the local manager. The new checklist simply tells him when to refuse a loan, without attempting to pinpoint which loan should be made.

Essentially, though, the new computer system is, as in other businesses, relieving American Investment middle management of some of its decision-making duties. "Credit scoring," notes Executive Vice President Donald L. Barnes Jr., "narrows the area in which sensitive judgment must be applied."

Savings in the millions

It also is saving the company some $200,000 a year that used to be spent investigating applicants who were later turned away. But this is not the biggest savings, by any means. "We look," says Curtiss, "for a reduction of a full $1 million annually in the cost of handling delinquent debtors. We are sure of eliminating 25% to 30% of them now. And that in itself will save us another $2 million in bad-debt charge-offs."

Nor, he adds, is the computer's work for American Investment finished. The electronic brain is now culling the company's mailing list so that bad customers will no longer be tempted to come in. In the future, invitations to borrow will go only to those best able to repay. —T.K.

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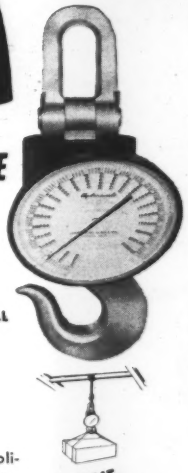

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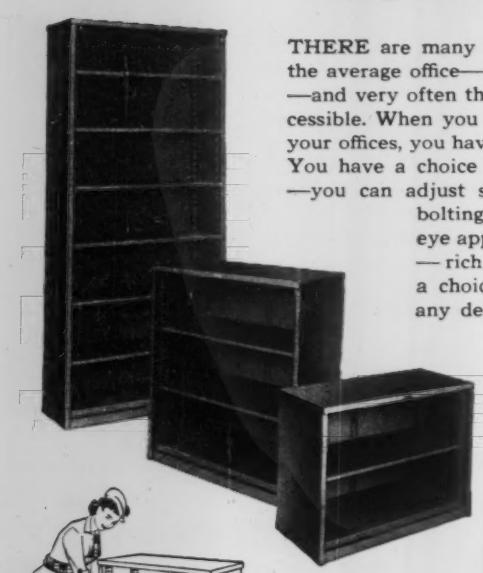

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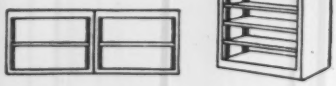

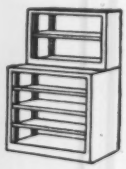

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Advertising Index

A

Amercoat Corporation 60
J. W. Watson
American Airlines AIRfreight 14
Young & Rubicam, Inc.
American Electric Power Company 51
J. Walter Thompson Company
American Telephone & Telegraph Co. National Yellow Pages 21
Cunningham & Walsh, Inc.
Atlantic City Electric Co. 71
Dorland Advertising Agency
Auto Fleet Leasing, Inc., Sub. of Commercial Credit Co. 42
VanSant Dugdale and Company, Inc.

B

Belgian Industrial Information Service 58
Black, Little & Company, Inc.
Borroughs Manufacturing Company, Subsidiary of American Metal Products Co. 70
Roland G. Spedden Advertising Agency
Bureau of National Affairs 54
M. Belmont Ver Standig, Inc.

C

Chase Manhattan Bank, The 19
Albert Frank-Guenther Law, Inc.
City Savings Association 58
Andover Advertising Company
Commercial Credit Company 11
VanSant Dugdale and Company, Inc.

D

Dayton Power and Light Co., The 44
Willis Case/Harwood, Inc.
Dick, A.B. 34A-34B, 35
Fuller & Smith & Ross, Inc.
Dillon, W. C., & Co., Inc. 53
Gordon L. Van Der Boom
du Pont de Nemours, E. I. & Co., Inc. 52
Batten, Barton, Durstine & Osborn, Inc.

E

Eastern Express, Inc. ..... Cover II
Kuttner & Kuttner, Inc.
Eastman Kodak Company 49
J. Walter Thompson Company

F

Farquhar, A-B, Div. of Conveyor Systems, Inc. 44
Armstrong Advertising Agency, Inc.
Ford Motor Company 20
J. Walter Thompson Company

G

Garden City Fan & Blower Company 68
Rossi and Company
Gilbert Paper Company ..... Cover IV
Frank C. Nahser, Inc.

Other DUN & BRADSTREET *publications:*

BOATING DIRECTORY
INTERNATIONAL TRADE REVIEW
METALWORKING DIRECTORY
MILLION DOLLAR DIRECTORY

Regional pages shown by suffixes E, C, or W

Graphic Systems 71
Caswell Advertising Agency

H

Hanauer, J.B., & Co. 12W
Melvin A. Jensen Advertising, Inc.
Heller, Walter E., and Company 2
Gourfain-Loeff Inc.
Hertz Corporation 10
Needham, Louis and Brorby, Inc.
Hill, R. O. H. 68
Charlop and Carland
H-O-N, The, Company 64
Clem T. Hanson Company
Hydroway Scales, Inc. 69
Wainscott Advertising

I

Illinois Central Railroad 47
Geyer, Morey, Madden & Ballard, Inc.
International Nickel Company, Inc., The 56
McCann-Marschalk Company
Interstate System 66
Aves, Shaw & Ring, Inc.

K

Kentucky, Commonwealth of 12E, 12C
Doe-Anderson Advertising Agency, Inc.

M

MWM Color Press, Inc. 69
Magline, Inc. 69
Rossi and Company
Manifold Supplies Co., Inc. 72
Faulkner Advertising, Inc.
Memo Flex Division, Garrison Machine Works, Inc. 44
Penny & Penny Advertising
Minnesota Mining & Manufacturing Company 43
Erwin Wasey, Ruthrauff & Ryan, Inc.
Monroe Calculating Machine Company, Inc. 46
Ellington & Company, Inc.
Muzak Corporation 7
Geyer, Morey, Madden & Ballard, Inc.

N

National Truck Leasing System 50E, 50C, 50W
W. S. Kirkland
New York Central System 18
Robert Conahay, Inc.
Northern Natural Gas Company 68
Bozell & Jacobs, Inc.

O

Oxford Filing Supply Co., Inc. 15
Kelly Nason, Inc.

P

Pennsylvania Power & Light Company 41
Pitney-Bowes, Inc. 61
L. E. McGivena & Co., Inc.
Plasticles Corporation 53
Rossi and Company

R

Remington Rand Systems Div.
Sperry Rand Corp. 4
Guild, Bascom & Bonfigli, Inc.
Republic Steel Corporation 45
Meldrum & Fewsmith, Inc. Advertising
Rock Island Lines 62
Aubrey, Finlay, Marley & Hodgson, Inc.

S

Shepard Niles Crane & Hoist Corp. 16
Carey Advertising, Inc.
Southern California Edison Company 72
Doremus & Company

T

Tel-A-Story, Inc. 72
Warren & Litzenberger
Texaco, Inc. 55
G. M. Basford Company
Texas Electric Service Company 48
Bozell & Jacobs, Inc.
Trans World Airlines 59
Foote, Cone & Belding
Travelers Insurance Company, The 13
Young & Rubicam, Inc.

U

Union Pacific Railroad 8
Geyer, Morey, Madden & Ballard, Inc.
United States Steel Corporation 17, 36-37
Batten, Barton, Durstine & Osborn, Inc.

W

Wagner Electric Corporation 64
Arthur R. Mogge, Inc.
Western Electric Company ..... Cover III
Cunningham & Walsh, Inc.
West Penn Power Company 65
Fuller & Smith & Ross, Inc.

X-Y

Xerox Corporation 22
Hutchins Advertising Company, Inc.

ADVERTISING SALES STAFF

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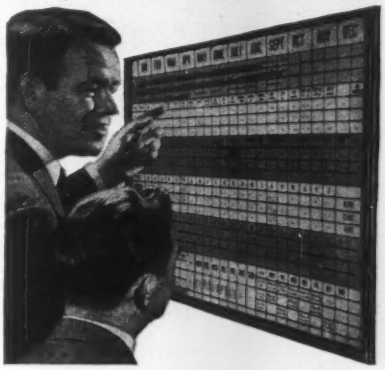

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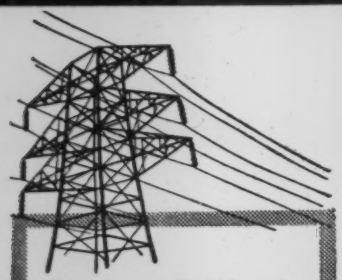

Southern California Edison Company

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4.24% SERIES
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4.88% SERIES
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The above dividends are payable August 31, 1961, to stockholders of record August 5. *Checks will be mailed from the Company's office in Los Angeles, August 31.*

P. C. HALE, *Treasurer*

July 20, 1961

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Let us save our indignation for the men and methods creating the situation. There are too many crocodile tears mixed with printers' ink, which implies that there is less guilt in the sin of bribery, subornation and collusion than in the exposure. There is an old adage which begins, "People who live in glass houses . . ." Besides, glass houses are not only breakable, but transparent.

Pay and Purpose

In life, compensation must include satisfaction and a feeling of dedication or it has no lasting value. We find all three in the work of the medical missionaries—Gordon S. Seagrave of Burma, the late Thomas A. Dooley of Laos, Albert Schweitzer of French Equatorial Africa, Sir Wilfred Thomason Grenfell of Labrador and, still earlier, Father Damien and Brother Dutton of Molokai. Dr. Seagrave complains of Americans' excessive reaching for security, whereas the greatest reward to the human spirit comes from risk, an urge to adventure in life's problems. This sense of adventure, however, is not always geographical. Many dedicated men and women of science are in the laboratories conducting research. Others may profit directly or indirectly on the risk money they put into these sleuthing projects, but dedicated men and women have their own measures of achievement, recognition and benefits.

The American Peace Corps, too, is dedicated to helping less fortunate people in Africa, Asia and Latin America. Yet the danger of permitting well-intentioned but naive zealots to rush into festering political and social slums can be as foolhardy as it is courageous. This hazard is recognized, however, and Peace Corps executives, following the practical guidance of many thousands of pioneers, teachers, preachers and businessmen, are screening the applicants to get those with the true instinct of dedication to the uplift of humanity.

The Peace Corps, under proper discipline, is a calculated risk for practical and tangible benefits. It may succeed with dedication and common sense, or fail as a floundering amateur effort of "do-gooders." However, it has generations of precedent by independent pace setters in human service to follow, and it can profit by their practical example.

While They Last

In our June issue, this column mentioned *The Old Peddler,* a lithograph which carried the slogan, "You Can't Do Business From An Empty Wagon." The reference resulted in a number of requests for the picture and text, which was originally issued in the winter of 1949-50, during the so-called inventory strike, a depressed period with some similarity to 1960-61. Checking our stock, we find there is still a modest supply of *The Old Peddler* lithos available. Single copies will be mailed out on a first-come, first-served basis to correspondents writing on company stationery.

—A.M.S.

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